Helping Those Left Behind by Trade

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Abstract

The modern rules-based trading system has been extremely successful in expanding trade, helping to bring down poverty sharply in developing countries. But it has done little to develop rules – or even offer recommendations for member states – for helping those who may be the losers in growing trade competition. The World Trade Organization (WTO) director-general recently acknowledged that: "In some rich countries, many people felt left behind, unable to benefit from new opportunities – and their frustration fueled a political backlash against international trade." That backlash, most apparent in the United States where neither of the leading political parties currently supports further liberalization, threatens to undermine the gains of trade liberalization.

This chapter argues that the old paradigm – that trade is broadly beneficial but that the "losers" need to be appropriately compensated – no longer offers a formula for agreement. Instead, policies should address how to make many more Americans into "winners" by spreading the benefits of trade more widely across the country.

I recommend an adjustment strategy that has three pillars: a competitiveness strategy to help Americans take advantage of the market opportunities created by trade agreements; an enforcement strategy to reduce distortions in international competition; and a worker strategy to help Americans gain the skills to prosper in globally competitive sectors and to cushion the transitions from job to job.

Since its formation in 1995, the WTO has been singularly focused on the rules of international trade, with the goal of reducing obstacles to expansion of trade in goods and services. In that mission, it has been impressively successful. Driven in no small part by growing trade opportunities, extreme poverty in developing countries, for example, fell from 40% in 1995 to 11% in 2022. But nowhere in the WTO's founding agreements, and rarely since, has the organization endeavored to develop rules – or even offer recommendations for member states – for addressing those who may be the losers in growing trade competition. For the first time, in its 2024 World Trade Report, which focuses on "trade and inclusion", the WTO's director-general acknowledges that for all the substantial gains from trade: "In some rich countries, many people felt left behind, unable to benefit from new opportunities – and their frustration fueled a political backlash against international trade."[1]

That backlash, most apparent in the US where neither of the leading political parties currently supports further trade liberalization, should have come as no surprise. The Nobel Prize-winning economist Paul Samuelson and his colleague Wolfgang Stolper showed back in the 1940s that, while the aggregate gains from specialization and trade would far exceed the losses, workers in import-competing sectors would see reductions in their wages as competition lowered prices for the goods they were making.[2] And the Stolper-Samuelson modeling was overly optimistic – they assumed that workers would move freely from region to region within countries and from sector to sector in search of better employment opportunities. In fact, few workers showed that sort of mobility. Instead, as demonstrated most famously in the "China shock" studies by economists David Autor, Gordon Hanson and David Dorn, American workers facing import competition more often lost their jobs and stayed put – accepting much lower wages at new jobs nearby or relying on social assistance.[3] The regions hit hardest by import competition suffered serious social decay.[4]

Failure to Adjust

In my 2016 book *Failure to Adjust: How Americans Got Left Behind in the Global Economy* – which came out just prior to the election that first brought Donald Trump to the White House – I argued that the absence of effective policies to better manage adjustment to trade competition was a serious and avoidable mistake in America's pursuit of trade liberalization after World War II.[5] It was not an oversight. President John F. Kennedy in 1962 had insisted on creating a "trade adjustment assistance" (TAA) program to help workers harmed by growing trade competition. Lowering tariffs in the US and around the world would bring greater competition that was strongly in the nation's interest, Kennedy argued, but "those injured by that competition should not be required to bear the full brunt of that impact." In a prescient memo written to President Richard Nixon in 1971, his advisor for international economic affairs Pete Peterson argued for a still more ambitious program to "facilitate the processes of economic and social change brought about by foreign competition". It was "unreasonable," he wrote, "to say that a liberal trade policy is in the interest of the entire country and then allow particular industries, workers, and communities to pay the whole price."[6]

Yet that is exactly what happened. Presidents and the Congress paid lip service to adjustment assistance – the program was reauthorized many times after 1962, usually as part of legislation giving the president further authority to reduce trade barriers. But it was always insufficient to meet the scale of the disruption, and was implemented in ways that barred assistance to many of those in need. Apart from the labor unions – which were ambivalent because they favored protectionist measures to save union jobs rather than assistance to the unemployed – TAA had few advocates. For businesses eager to pursue new opportunities around the world, adjustment assistance was largely a nuisance, paid for out of tax dollars and adding nothing to their bottom line. And in the international negotiations that would create the WTO and a slew of bilateral and regional trade agreements across the world, help for those displaced was seen as a matter of domestic policy and not a subject fit for inter-state agreements.

The Protectionist Response

It may be too late to rectify those mistakes. The world has moved into a more protectionist era in which tariffs have become an acceptable and widely used tool, and many countries are deploying a mix of subsidies and trade protection to try to expand production at home and reduce reliance on imports. The old paradigm – that trade is broadly beneficial but that the "losers" need to be appropriately compensated – no longer offers a formula for agreement. Congressional authorization for the TAA program expired in 2022 and efforts to revive it have been lackluster and unsuccessful. Both political parties are offering up tariffs – "strategic" in the case of the Democrats and across the board for Republicans – as the go-to response to protect Americans from import competition. Depending on the scale, the losses from that approach will be enormous. Already, global trade growth has slowed significantly over the past decade, even though the protectionist measures to date have generally been modest. If the backlash against trade expands, which seems likely with Trump's re-election, more damaging responses are almost certain.

Europe has done somewhat better than the US; generous social support and workforce retraining programs have helped many displaced workers, and the popular backlash to trade has been more muted. But even an effective after-the-fact compensation scheme has its limits. As Alex Raskolnikov and Benn Steil argue in a recent Council on Foreign Relations paper: "Workers whose identities are tied up with their chosen vocations and communities vote for candidates who pledge to protect their jobs, and not those who pledge—often emptily, as we've seen—to compensate them for their loss."[7]

New Strategies of Adjustment

Could there be a more durable way to address the losses from trade without undermining the enormous gains that have come and are still offered by expanded global trade? In *Failure to Adjust*, which focuses on the American experience, I argued that the issue of compensating the "losers" from trade was always too narrow to make a difference in the lives of most workers, and a mistake politically because it focused the conversation on the specific losses from trade rather than the broadly-based gains. Instead, I argued, policies should address how to make many more Americans into "winners" by spreading the benefits of trade more widely across the country. Market forces alone were insufficient, I argued; government action was needed help those who might otherwise be left behind.

My recommendations had three pillars: a competitiveness strategy to help Americans take advantage of the market opportunities created by trade agreements; an enforcement strategy to reduce distortions in international competition; and a worker strategy to help Americans gain the skills to prosper in globally competitive sectors and to cushion the transitions from job to job. I called it a "bottoms-up" approach to competing that starts with the premise that trade should help communities increase their prosperity, rather than negotiating and imposing rules from the top-down and letting the gains and losses fall where they may. States, provinces and local governments should be a key part of these conversations, pushing to ensure that national trade strategies reflect local priorities.

Enhancing Competitiveness

The good news is that in the US the Joe Biden administration pursued many of these policies, with support from Congress, during its four years in government. After more than a decade of failed promises, the administration won bipartisan support for an infrastructure bill that has already pumped hundreds of billions of dollars into upgrading or building Internet broadband, highways, rail lines, seaports and airports, bridges, water treatment plants and variety of other projects.[8] Those investments will not only make the US economy broadly more competitive, but will especially help with moving goods within and beyond the country, improving trade competitiveness.

The Chips and Science Act was more explicitly targeted at accelerating US innovation in the sectors of the future, from information to biotechnology, and staying one step ahead in the economic competition with China. One of the more striking features of the legislation has been its focus on helping so-called "Rust Belt" states that were hit hard by import competition in sectors from steel to automobiles. The goal has been to use federal seed money and research dollars to help turn left-behind regions into engines of the new economy. The industries targeted – from biotechnology to batteries to polymers – are all ones that are deeply engaged in global supply chains and international trade. If successful, the new initiatives could help make winners out of regions that have seen themselves on the losing end of trade.[9]

Reforming Trade Enforcement

These measures are unlikely to succeed, however, without a more effective response to trade distortions. China, in particular, has continued to pour state aid into one industrial sector after another, producing huge global overcapacity in sectors from electric vehicles and batteries to solar panels; China has a particular stranglehold on intermediate inputs from critical minerals to chemicals to electronic components.[10] In my book, I argued that trade enforcement in the US has been far too scattershot. Anti-dumping and countervailing duties, for example, are imposed in response to petitions from individual industries that may or may not be aligned with government priorities. Instead, I argued, trade enforcement should be use in support of efforts to develop internationally competitive industries. In line with class infant industry arguments, some combination of government financial support and protection from import competition may be needed to help nurture industries that are seen as national priorities. The US, the European Union and Canada have all imposed steep tariffs on imports of Chinese electric vehicles, for example, to prevent disruption of their own emerging – and often heavily subsidized – EV industries.

Such enforcement measures do pose real risks to the trading system. Inevitably, other industries will demand similar protection, and pressure will grow on politicians to respond with further tariffs. The GATT and WTO systems were constructed in large measures to try to prevent such race-to-the-bottom protectionism. This raises larger issues of reforming WTO dispute settlement procedures and increasing flexibility to accommodate the resurgence in industrial policy, issues that are addressed elsewhere in this volume. Policymakers should also pursue more creative alternatives when it comes to enforcement. Many countries effectively outsourced enforcement to the WTO when it was created in 1995, so there has been little innovation in developing more strategic enforcement tools that can nurture industrial priorities while minimizing harm to other goals. Few countries, for example, have used tariff-rate quotas for reducing EV imports – a once-common tool that could allow a limited number of inexpensive Chinese EVs to be imported to help meet climate change targets while preventing a larger import surge.

Assistance for Workers

The final piece, I argued, was an urgent effort to help Americans compete, not just American companies. In a world where technological changes continue at rapid speed – artificial intelligence being just the latest iteration – workforce training and lifelong learning are essential to open opportunities for those disrupted by change from technology, trade or other causes. Those recommendations were echoed by the 2019 Council on Foreign Relations report *The Work Ahead: Machines, Skills and U.S. Leadership in the 21st Century*, for which I served as project director. The report called for a range of measures to rebuild the links among work, opportunity, and economic security for all Americans in the face of accelerating change.[11] Boosting workforce quality is essential to upgrading US competitiveness in the global economy; the US semiconductor industry, for example, which is receiving billions in government funds to expand domestic production, is facing a massive labor shortage.[12]

Here the US has continued to struggle. K-12 educational opportunities are highly unequal across the country, hindering the development of American talent.[13] Colleges and universities have been slow to adapt their approaches to changes in the economy, too often failing to incorporate on-the-job training, internships and other innovations that better align advanced education with the needs of the economy.[14] And the federal government has been slow to adapt apprenticeship programs, which continue to face stifling regulations that discourage employers from participating. Education and workforce training need to be a priority across the board for the next administration.[15]

International Coordination

While national, regional and local governments will have the primary role in designing and implementing domestic adjustment measures, countries should be working closely with each other to minimize the trade distortions that will inevitably be caused by subsidies and protectionist measures. The US-European Union Trade and Technology Council has taken some modest steps in this direction, as has the Indo-Pacific Economic Forum. Extending those efforts to include China would be helpful, but must be considered unlikely given China's long-standing refusal to alter or curtail its industrial policies in the face of concerns from its trading partners.

The WTO, at the least, should be reviewing these measures for their consistency with international trade rules. Inevitably there will be conflicts, particularly regarding industrial subsidies; given the long-standing stalemate in Geneva on most substantive negotiations, there is little likelihood of the rules being amended to accommodate such measures. But there is still value in transparency – and perhaps the potential for at least limited negotiations on restraints if such measures come to be seen by governments as overly costly ones that are exacerbating market distortions.

Conclusion – Integrating Liberalization & Adjustment

Current protectionist trends could certainly see the world devolve into a far more damaging cycle of trade conflicts. But that is in no country's interest. Instead, new and creative efforts are needed to protect and advance the gains from trade liberalization while minimizing the harms. As others address in this volume, in the face of growing geopolitical and geoeconomic competition, liberal trade rules will need to co-exist with measures to protect national security, a challenge that seemed less urgent when the WTO was created three decades ago. And future liberalization must be also married to effective adjustment policies – they can no longer be an afterthought. The approaches above are only preliminary suggestions at finding that balance. Policymakers need to tackle the challenge with the same urgency and tenacity they once reserved for negotiating trade liberalization.

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