Noah Smith: Economists love free trade. Except that they don't

Noah Smith, Bloomberg View

In his recent book "Economics Rules," Harvard economist Dani Rodrik laments how economists often portray a public consensus while disagreeing strongly in private. In effect, economists behave like scientists behind closed doors, but as preachers when dealing with the public.

Nowhere is this evangelism clearer than on the issue of trade. Ask any economist what issue they agree on, and the first answer you're likely to hear is "free trade is good." The general public disagrees vehemently, but economists are almost unanimous on this point.

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But look at actual economics research, and you will find a very different picture. The most recent example is a paper by celebrated labor economists David Autor, David Dorn and Gordon Hanson, titled "The China Shock: Learning from Labor Market Adjustment to Large Changes in Trade." The study shows that increased trade with China caused severe and permanent harm to many American workers:

> Adjustment in local labor markets is remarkably slow, with wages and labor-force participation rates remaining depressed and unemployment rates remaining elevated for at least a full decade after the China trade shock commences. Exposed workers experience greater job churning and reduced lifetime income. At the national level, employment has fallen in U.S. industries more exposed to import competition…but offsetting employment gains in other industries have yet to materialize.

Autor, et al. show powerful evidence that industries and regions that have been more exposed to Chinese import competition since 2000 — the year China joined the World Trade Organization — have been hit hard and have not recovered. Workers in these industries and regions don't go on to better jobs, or even similar jobs in different industries. Instead, they shuffle from low-paid job to low-paid job, never recovering the prosperity they had before Chinese competition hit. Many of them end up on welfare. This is very different from earlier decades, when workers who lost their jobs to import competition usually went into higher-productivity industries, to the benefit of almost everyone.

> *Efficiency says nothing about fairness, and almost any model of trade will show that some people, industries and regions lose out.*

FileWorkers displaced by China trade often go from one low-paid job to another, research indicates.

In other words, the public might have been wrong about free trade in the 1980s and 1990s, but things have changed. Popular opinion seems to be *exactly right* about the effect of trade with China — it has killed jobs and damaged the lives of many, many Americans. Economists may blithely declare that free trade is wonderful, but our best researchers have now shown that public misgivings about these smooth assurances have been completely justified.

Why are economists so willing to declare to the world that free trade is good, even after reading papers like the one by Autor et al.? Part of the problem is the definition of "good." According to most models of trade, reducing trade barriers raises efficiency — which is to say, total gross domestic product. But efficiency says nothing about fairness, and almost any model of trade will show that some people, industries and regions lose out. If most Americans experience slight gains from lower import prices, and a few lose their livelihoods and have to go on welfare, economists call that a "good" outcome, because they are so focused on the concept of efficiency. But because the public cares about a lot more than efficiency, the job losses in industries and regions knocked out by China since 2000 have made economists seem increasingly callous and out of touch.

> *Real-world economies may simply be much worse at adjusting to big changes than most economic models assume.*

But this is only part of the problem. Economists are also stubbornly unwilling to question their benchmark theories, even when the evidence presents a challenge to these theories. The fact that Autor et al. find total national employment declining in response to trade with China should be cause for concern. Standard trade models, especially the simple ones taught in Econ 101, predict that this shouldn't have happened. Autor et al. sternly rebuke the economics profession for relying too much on theory, and not enough on evidence, when it comes to the issue of trade:

> We argue that having failed to anticipate how significant the dislocations

> from trade might be, it is incumbent on the economics literature to more convincingly estimate gains from trade, such that the case for free trade is not based on theory alone, but on a foundation of evidence.

The authors suggest that real-world economies may simply be much worse at adjusting to big changes than most economic models assume. It is expensive and time-consuming for workers to train for new jobs and to move to new locations. It also takes time and money for businesses to figure out how to change their business models in response to the new landscape presented by a global economy with China in it. These adjustment costs might overwhelm the gains from trade.

In the case of China, Autor et al.'s warning may come too late. China's economy is slowing and its costs are rising rapidly. No new prospective trade partners will be able to replicate anything close to the China shock. In other words, the unique problems created by trade with China might have been a one-off event. But economists should still re-evaluate their benchmark theories, and ease up in their adamant rhetoric in favor of free trade.

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