The Economist

China and jobs

Who's afraid of the dragon?

New research quantifies the effects of Chinese imports

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SHOULD a free trader laugh or cry? On October 12th, Congress finally ratified long-stalled trade pacts with Colombia, Panama and South Korea. But the previous day the Senate threw down the gauntlet to China. It passed, by a stonkingly bipartisan margin of 63-35, a bill that would authorise the Commerce Department to impose countervailing tariffs on Chinese imports it deems to have benefited from an undervalued currency. The bill is unlikely to pass in the House, but the vote is a sign that China-bashing, always popular in Congress, has become more so as America's job market has struggled.

The latest figures show that the economy added 103,000 jobs in September and previous months' totals were significantly revised up. Nonetheless, the unemployment rate remained at 9.1%, as jobs barely kept pace with labour force growth; and manufacturing employment fell.

The bill's advocates, some of whom claim, implausibly, that the yuan is as much as 40% undervalued, reckon driving away Chinese imports will bring some of those jobs back. But are their claims justified? A new paper by three economists: David Autor, David Dorn and Gordon Hanson, looks at the effects of rising Chinese import competition on regional American labour markets from 1990 to 2007. They find that regions whose manufacturers had higher exposure to competition from Chinese imports saw higher overall unemployment, lower labour force participation and reduced wages. Every $1,000 of additional Chinese import exposure in a region per worker lowered the employment rate by 0.77%, enough to add up to several percentage points in the worst affected areas. Mr Autor says that more recent data corroborate these trends.

It has always been clear that free trade has winners and losers; the winners are consumers who enjoy cheaper products, the losers are the displaced workers whose incomes suffer and the taxpayers who must support them. The paper argues that as much as two-thirds of the gains from trade are eliminated due to the losses associated with these redistributions, and that this amounts to a serious problem.

This may be too gloomy. So far, economists have found measuring the costs of trade much easier than measuring its benefits. As well as lowering the cost of inputs for domestic firms, trade increases the variety of products and may also boost productivity—both tricky to quantify.

Another paper, by Nicholas Bloom, Mirko Draca and John Van Reenen, tries to do just that. It suggests that trade may induce firms to invest in innovation, contributing to productivity growth. The researchers find that every 10% rise in Chinese imports in a firm's industry was associated with increases of 3.2% in patent filing, 3.6% in IT spending and 12% in R&D. Competition from China drives low-tech firms out of the market, but forces others to upgrade. According to the paper, 15% of technical change in Europe between 2000 and 2007 can be attributed to competition from Chinese imports.

Both papers suggest that Congress could better help trade's losers with improved assistance than protectionism. The Trade Adjustment Assistance Act is the principal programme for compensating those displaced by trade, but its outlays are a rounding error compared to the money spent on disability and health insurance compensation. Mr Autor's data suggest that as many as 10% of those losing employment following an import shock obtain Social Security Disability Insurance (SSDI). The scheme has a present value of nearly $270,000 to a new recipient. When a worker goes on SSDI, he or she is almost certain to be lost forever to the workforce. Better designed programmes would help more displaced workers find and keep jobs.