Economic Policy Institute

Unfair trade deals lower the wages of U.S. workers

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Unfair trade deals have lowered the wages of U.S. workers by displacing jobs and weakening the bargaining position of low- and middle-wage workers. President Obama and his predecessors have frequently claimed that free trade agreements (FTAs) and other trade deals would lead to growing exports and domestic job creation. But data on trade following the North American Free Trade Agreement in 1994, China's entry into the World Trade Organization in 2001, and the U.S.-Korea Free Trade Agreement (KORUS) in 2007 show that these deals have done much more to stimulate imports than exports, leading to growing trade deficits.

The issue is simple: Although increased exports support U.S. jobs, increased imports cost U.S. jobs. Thus, it is trade balances—the net of exports and imports—that determine the number of jobs created or displaced by trade agreements. Rather than reducing our too-high trade deficit, past trade agreements have actually been followed by larger U.S. trade deficits.

Trade deals and globalization affect U.S. wages in two main ways:

- **Increased U.S. trade deficits push jobs out of better-paid tradeable sectors.** Jobs displaced by growing trade deficits result in lost wages as workers who leave high-paying import-competing industries such as computer and electronic parts manufacturing take jobs in lower-paying nontradeable industries. Even when jobs in importing industries are replaced in part by jobs in exporting industries such as agriculture or food products, the result is wage losses from rising trade deficits.
- **Even if trade deficits do not rise, increased trade changes the composition of jobs, and the new patterns of employment lead to reduced demand for labor and downward pressure on wages.** As the United States increases production (and increases exports) of capital-intensive goods and reduces production (and increases imports) of labor-intensive goods, this leads directly to a reduced demand for labor, even if exports and imports measured in dollars balance. Further, as imports displace workers from tradeable sectors (such as manufacturing), these laid-off workers need to accept lower wages to obtain work in other sectors (such as landscaping or construction), and this competition helps to lower the wages of similar workers already employed in these sectors. In short, while it is impossible to replace a waitress (a job in the nontradable restaurant sector) with imports, her wages

are harmed by having to compete with apparel workers who have lost jobs due to increased trade flows. Standard trade models indicate that expanded trade has reduced the annual wages of a full-time American worker without a four-year college degree who earns the median wage by $1,800 per year. Given that there are roughly 100 million non-college-educated workers in the U.S. economy, the scale of wage losses suffered by this group likely translates into close to a full 1 percent of GDP—roughly $180 billion.

An example of direct wage losses from trade with China

- The growth of U.S. exports to China between 2001 and 2011 supported 538,000 U.S. jobs; on average, jobs in the industries exporting to China paid $872.89 per week in 2009–2011 (the last years for which we have complete wage data).
- The growth of U.S. imports from China between 2001 and 2011 displaced nearly 3.3 million (3,280,200) U.S. jobs; on average, jobs in these import-competing industries paid an average of $1,021.66 per week in 2009–2011.
- Jobs in nontraded industries (industries that do not involve traded goods) paid an average weekly salary of $791.14 per week in 2009–2011.
- Overall, the increase in the U.S. trade deficit with China between 2001 and 2011 eliminated more than 2.7 million U.S. jobs.
- Total wage losses due to trade with China were $37.0 billion in 2011. This assumes that 538,000 of the 3.3 workers who lost jobs in importing-competing jobs found work in the newly created exporting jobs paying $148 a week less or $7,736 less per year, and that the remaining 2.7 million workers displaced by growing U.S. imports from China found jobs in industries unaffected by trade paying $230 less per week or $11,987 less per year.
- The displacement of manufacturing jobs by growing U.S. trade deficits with China has been particularly hard on minority workers: 958,800 were displaced, with wage-related losses in 2011 of $10,485 per worker and $10.1 billion overall.
- The rapidly growing China trade deficit displaced nearly 1.1 million jobs in computer and electronic products between 2001 and 2011, well over a third of all the jobs displaced. Wages in the computer and electronic products sector are high, even higher than average manufacturing wages, and therefore higher than wages in nontraded industries. Nearly three-fourths (74.3 percent) of the workers in this industry sector earn wages in the top half of the income distribution.

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