Preface

Many Americans view the rise of emerging-market economies with ambivalence. Principal concerns of a large share of the US public are about jobs and wages, especially at a time of high unemployment and slow income growth. Imports and offshoring by US firms to emerging-market economies such as India and China are often named in popular surveys as the most important reason for US job loss, especially in manufacturing. As a result of this not necessarily well-founded view, public opinion has been highly skeptical about the benefits of open trade and trade agreements.

These public concerns have been reinforced of late by several prominent economists, who have made more serious arguments considering the possibility that emerging-market-economy growth has or could reduce US living standards, lower US wages, and increase wage inequality (although none of these economists support a protectionist response).

If these concerns were valid, the implications would be serious. Overall US international economic policy since World War II has been based on the premise that foreign economic growth is in America's economic, as well as political and security, self-interest. Confronting these fears with the data is an imperative to inform our economic policymaking and public debate.

In this study, Lawrence Edwards and Robert Lawrence do just that. They undertake an extensive survey of the empirical literature to date and more importantly conduct their own indepth analyses of the evidence. Their conclusions contradict several popular theories about the negative impact of US trade with developing countries. Edwards and Lawrence demonstrate that trade has been tagged a villain far out of proportion to its actual impact on America's problems of slow income growth and rising inequality. To be sure, imports have caused some localized harm, such as when trade-related job losses hurt specific communities and prove to be costly for displaced workers, as long acknowledged to be inevitable. That does not justify the many exaggerations surrounding trade's role in the US income distribution. Indeed, the authors conclude that growth in emerging-market economies is part of the solution to America's current economic problems, rather than their source.

In particular, Edwards and Lawrence find that the decline in manufacturing's contribution to employment in the United States is driven by the combination of a shift in domestic demand away from spending on goods and faster productivity growth in manufacturing—not by imports and US trade policy, in contrast to received wisdom. This is borne out by the fact that the United States is not alone in experiencing these shifts—all industrial countries experienced a decline in their share of employment in manufacturing, even those with large trade surpluses.

For these reasons, even if the United States had recorded balanced trade over the past two decades, the share of manufacturing employment would have fallen by about as much as it did. The link between the rising US trade deficit since 2000 and the absolute decline in the level of manufacturing employment is more apparent than real. The increasing growth observed in US labor productivity implies that the imputed job content of the manufacturing trade deficit did not change over the past decade. Further, the authors find that that the association between *overall* US employment growth and import growth has been strikingly *positive*. Trade has actually boosted US employment in downturns because the country's recessions have originated domestically, and employment growth in the aftermath of major trade agreements has actually been robust. This finding is a sharp contradiction to the common view that imports and offshoring have been an important source of aggregate employment loss, especially during the most recent recession.

Edwards and Lawrence also find that trade with emerging-market economies has improved America's nonoil terms of trade and increased its product choices, thereby improving consumers' purchasing power. For example, they estimate that in 2008 this trade boosted US incomes by an average of $500 per person. As theory and common sense predict, developing-country growth provides US exporters with larger markets and US producers with cheaper and more varied inputs. In addition, while some emerging-market imports have caused dislocation, most are low-value-added finished and intermediate products that the United States no longer produces at home and would not produce at its current income levels. Most US producers are thus not adversely affected by these imports from emerging-market economies, while US buyers—consumers and downstream producers—enjoy lower prices and more choice. These results cast serious doubt on claims that increased competition by emerging-market countries has reduced US economic welfare.

Oil is an exception. There is evidence that demand generated by developing-country growth has played a role in boosting oil prices. But again misperceptions exaggerate the impact of countries such as India and China. The primary responsibility for the shortfall between supply and demand that caused oil prices to soar between 2000 and 2008 actually rests with the developed countries, whose own oil production failed to keep up with their demand. There is also evidence that with anticipated increases in US domestic energy supplies, this concern will become less important over time (as Trevor Houser projects in a forthcoming study for the Peterson Institute).

The past decade has seen an increase in overall income inequality in the United States with larger shares of income going to profits than to wages and to the super-rich than to everyone else. Using a variety of methodologies, however, the authors do not find that emerging-market-economy trade has had a substantial impact on economywide wage growth of workers with different levels of skill and education.

All told, the authors conclude that the premise that economic growth in emerging-market economies is in American self-interest will remain appropriate as a guide for US international economic policy in general and US trade policy in particular. In the aggregate, Americans benefit from growth in developing countries, and the effects on economywide wage inequality in the United States are relatively modest. Though there will continue to be some displacement and specific wage loss, those also take place in the process of industrial change within the United States and all capitalist economies. The ability of developing countries to meet the commonly made optimistic growth projections is by no means assured. But since this growth provides larger markets for US exports and improves America's terms of trade, it helps the United States undertake its own internal adjustment challenges. Indeed, slower growth in emerging-market economies would likely present the United States and its citizens with far greater economic problems than rapid growth.

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Adam S. Posen
President
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