

# Comments on “The China Shock” Autor, Dorn, Hanson

Jared Bernstein

CBPP

[Bernstein@cbpp.org](mailto:Bernstein@cbpp.org)

5/5/16

**PIIE**

# 5 points

- Strong empirics with results that are important, timely, and maybe not too surprising.
- Acute vs. diffuse: is this “meme” re trade impacts true?
- Unique moment in political economy of trade
- Problems in global macro
- How can we best tap this moment to promote more inclusive globalization?

# Strong empirics with results that should not be very surprising

- Earlier work based on factor content of trade flows: highly aggregate, shifts in national skill proportions for wage effects.
- Or, map aggregate trade deficit onto job losses through input/output matrix.
- ADH great improvement!
- China shock...German shock?

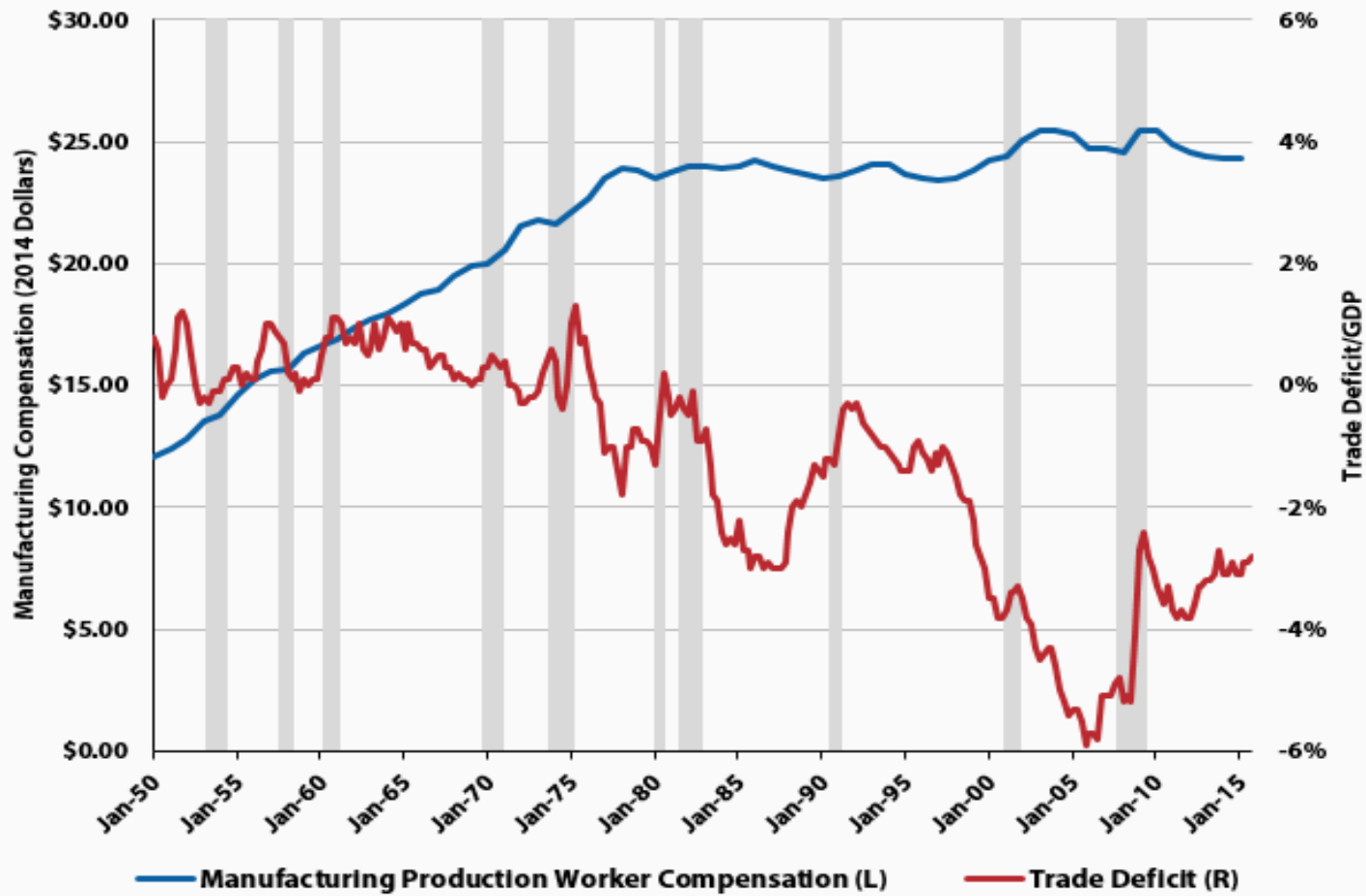
# Acute costs; diffuse benefits

- What's the model?
- Bivens: \$1,800/yr non-college educated, ft worker
  - Aggregate model which assumes factor price equalization, so trade with LDC must have this effect.
- But ADH confirm: FPE is operative
- ADH: Acute costs, “smaller” diffuse costs
  - Froman: “nobody gets to vote on technology”

# Unique moment...thanks, Donald

- Trump, yesterday (NYT) trade is “killing the country” and “the markets would be fine” [with a 35% tariff on MNCs that outsource]
- Stagnant earnings, of course (including manufacturing)
- Persistent trade deficits
- TPP/HRC
- China, currency (which happens to be aligned...)
  - China’s large reserve holdings
- ADH effects!
- Most importantly: elites have been cavalier about the costs of trade
  - Winners compensate losers
  - TAA, “burial insurance”

## Manufacturing Compensation and the Trade Deficit



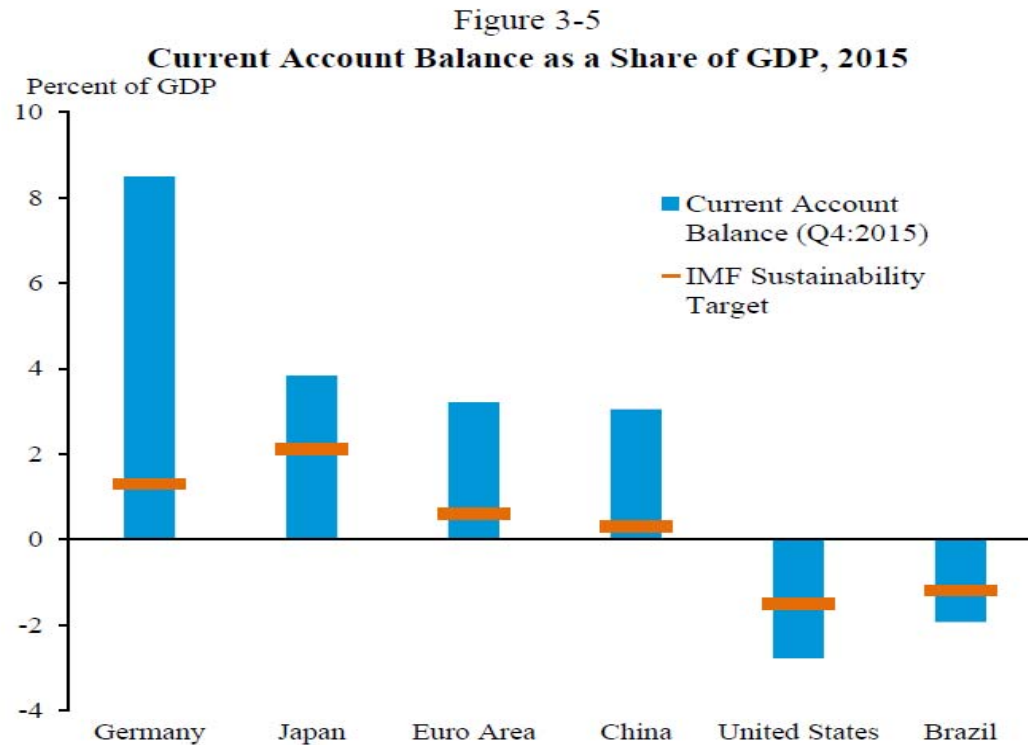
# Global macro, beyond ADH

- Bernanke savings glut
- Open economy sec stag (Eggertsson et al, 2016)

$$Y = -\alpha(i - \pi) + \delta G - \chi q - \omega K^* + \theta(B^g - IR) + \varepsilon$$

- Current alignments
- Currency management

## Current Accounts Show Demand < Supply in Many Major Economies



- **Large CA surplus in a number of major economies: producing more than they consume and invest.**
- **Even more than IMF targets in all cases.**

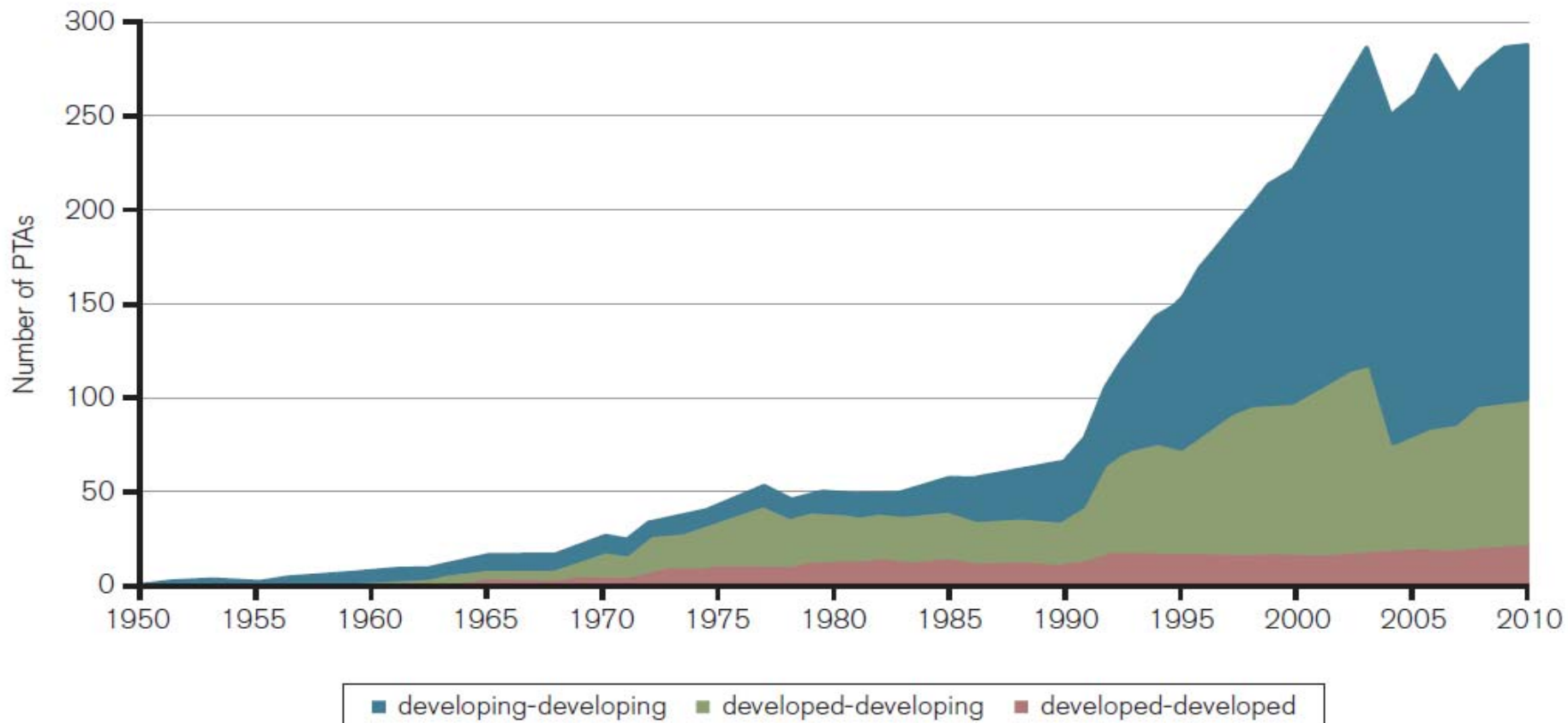
Source: Jay Shambaugh, CEA



# FTAs on “time out”?

- Given the difficulty of getting different stakeholders at the table, could be awhile before FTAs can be usefully pursued.
- *So, what's the goal?*
- 300 “F”TAs in place
- TFAs not FTAs
- Unilateral measures (currency, cap flows)
- Diplomacy, as per President Obama in Cuba
- ADH: **Really help people, families, and communities hurt by trade.**
- Adam et al: You tell me!

Figure B.1: Cumulative number of PTAs in force, 1950-2010, notified and non-notified PTAs, by country group



Source: WTO Secretariat.

# Trade and globalization are:

- ...Here to stay
- ...Like any other forces in play in geopolitics: their outcome is far from determined by the “invisible hand,” “comparative advantage,” “market forces”
- Those all matter, but ADH shows, so do frictions, bargaining power, mobility, and more.
- **Let us usefully tap this unique moment!**