

## **Distributional Consequences of US Trade and Trade Policy**

*March 1 Roundtable for the U.S. International Trade Commission*

*Testimony of Todd N. Tucker, PhD, Director of Industrial Policy & Trade, Roosevelt Institute*

Hello, my name is Dr. Todd N. Tucker. I am a political scientist and director of industrial policy and trade for the Roosevelt Institute, a nonprofit research organization.

I applaud the ITC for undertaking this crucial work on investigating the distributional effects of trade and trade policy, including today its impact on different racial and ethnic groups.

I have a number of recommendations or observations as you conduct your two-part investigation to catalog existing information and develop new research and analysis capabilities. For brevity, these recommendations consist mostly of pointing to several bodies of scholarly literature worth considering as you conduct your review.

First, I would recommend the ITC take a broad view of distributional impacts, including by class. In the traditional trade policy narrative, reductions of tariffs lead to concentrated losses for displaced workers and generalized highly dispersed gains for consumers. The winners can compensate the losers. If losers continue to suffer, that is due not to trade but rather automation or inadequate social safety nets.

However, this traditional narrative is incomplete. Not only has adequate compensation for “losers” not been forthcoming, there is increasing evidence that the US approach to trade has contributed to inter-class bargaining dynamics that make it more likely that the political system will not deliver compensation or adequate social safety nets – creating a vicious cycle.

The perceived policy lock-in of tariff-reducing trade agreements gives additional security to offshoring firms (Pierce and Schott 2012), and would-be offshorers can credibly threaten national exit when confronted with union drives (Bronfenbrenner 2000) (Dean 2022). This translates into earnings reductions for workers overall, which some researchers have put in the range of \$2,000 per year (Mishel and Bivens 2021). These shocks lead not only to direct job losses, but have been associated with broader metrics of community decline like opioid overdoses (Dean and Kimmel 2019). To the extent that trade coincides with or promotes greater capital concentration in particular labor markets, this can lead to labor market monopsonies that further reduce worker power (Naidu 2021).

Meanwhile, intellectual property and investment protections (in and out of trade agreements) contribute to outsize gains at the top (Baker 2018). We know from a growing body of literature that this increase in inequality leads to misallocations of capital that lower growth (Boushey 2019), and distort the attentiveness of policymakers to the needs of working class constituents (Gilens and Page 2014) (Hacker and Pierson 2019).

Having a class lens does not detract from a racial lens. Rather, it deepens it by allowing greater intersectional analysis. This leads to my second recommendation: I would urge ITC to consider the impact of trade policy on the observed incidence of manufacturing jobs, unionized jobs, and manufacturing unionized jobs for workers generally and Americans of color specifically. Each

type of jobs offers a pathway to greater economic mobility. Economists have long studied the unique attributes of manufacturing relative to agriculture or services, including the scope for continual productivity gains that create at least the possibility of rising compensation (Millemaci and Ofria 2014) (Felipe, Mehta, and Rhee 2014). Moreover, we know that coverage by collective bargaining agreements is associated with reductions in community poverty and a wage and benefits premium for workers overall (Farber et al. 2021) (VanHeuvelen and Brady 2021). Moreover, union membership for workers of color reduces their racial wealth gap relative to whites (Weller and Madland 2022).

There is public value in presenting correlative data even where establishing a strict causal relationship is not possible. Excessive reliance on causal inference limits policy responses to real world problems. The failure to show a causal connection with statistical significance, after all, does not tell us that the effect is not present. It just tells us that we cannot be sure that the effect is present. Excessive reliance on causal inference in policymaking thus risks confusing absence of a certain kind of evidence with evidence of absence.

Indeed, understanding the correlations between the variable of trade and trade policy changes and the variable of job types is valuable in and of itself. If the percentage of Black workers in manufacturing unionized jobs dropped precipitously since NAFTA, this represents a fact on the ground that trade policy should take into account and set targets to reverse. The ITC should present counterfactuals on economic outcomes of interest – income, wealth, poverty – if the share of workers of color in manufacturing, unions, and manufacturing unions had remained at their historic peaks detailed in (Western et al. 2021). How would this counterfactual have influenced the racial wealth gap? This type of calculation can help inform a policy agenda for compensation for workers displaced by manufacturing job loss, and as input into the debate on reparations for Black Americans.<sup>1</sup>

In short, trade coincides with a transition from one type of economy and institutional arrangement to another. These are to be expected to have distributional impacts.

Third, I would urge you to examine the interconnections between trade, manufacturing, unions, and social cohesion (including inter-racial cohesion) more broadly. A robust social science and historical literature<sup>2</sup> finds that greater union density is associated with deeper civic participation and better understanding by citizens of the content of policy. Moreover, the availability of manufacturing and presence of unions can help reduce the racial and political polarization that exposure to trade competition increases (Autor et al. 2020) (Minchin 2016) (Morgan 2018). In short, there are “public good” dimensions. To the extent trade policy leads to a decline in labor power, there are negative externalities for racial inclusion and civic health. And because Black workers are nearly twice as likely to vote yes in a hypothetical union election (Gumber and Padavic 2020), focusing the benefits of trade and labor policy in industries that disproportionately employ workers of color could drive spillovers for all workers and society as a whole.

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<sup>1</sup> For more on these debates, see (Strickland and Wong 2021) and (Tucker 2017).

<sup>2</sup> Reviewed in (Ahlquist 2017) and (Tucker 2018b). See also (Macdonald 2021a), (Macdonald 2021b), and (Kim 2022).

Finally, as the ITC considers how itself and other trade policy agencies can advance racial equity, it should take a broad scope of what constitutes “trade policy.” In its recent estimations of the impact of the US-Mexico-Canada Agreement, the ITC considered traditional trade policy changes like tariff reductions, as well as newer “non-trade” aspects of trade agreements like investor-state dispute settlement (ISDS) (USITC 2019). Scholars questioned the balance of the particular way in which ITC operationalized the regulatory predictability offered by ISDS, and thus the associated benefits via changes to investment flows (Polaski, Capaldo, and Gallagher 2019). One way to bring greater balance to these policy assessments is to note how non-trade provisions like ISDS have differential impacts on issues of concern for communities of color. For instance, my own interviews with ISDS arbitrators revealed widespread anti-democratic and anti-environmentalist views (Tucker 2018a), while there is growing concern (including from UN rapporteurs) that multinational investors use ISDS as a kudgel against indigenous communities (Kwan-Parsons 2020). Future trade policy assessments can benefit from including this type of information as potential costs – alongside the model-predicted benefits.<sup>3</sup> They may also counsel policymakers to consider building in provisions to trade agreements that do not simply assume ex-post facto redistribution, but build “pre-distribution” concerns into the fabric of the trade agreements themselves (Meyer 2020).

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<sup>3</sup> Notably, during his campaign, President Joe Biden committed to adopting Senator Cory Booker’s (D-NJ) Environmental Justice Act of 2019, which would make racial equity a core part of the mission of every federal agency – including trade agencies like USTR. Crucially, the definition of “indigenous communities” in that legislation included those at home and abroad. Thus, trade agencies should consider how provisions like ISDS affect indigenous communities around the globe.

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