



October 1, 2021

The Honorable Jason E. Kearns, Chairman
The Honorable Randolph J. Stayin, Vice Chairman
The Honorable David S. Johanson, Commissioner
The Honorable Rhonda K. Schmidlein, Commissioner
The Honorable Amy A. Karpel, Commissioner

U.S. International Trade Commission
500 E Street, SW
Washington, DC 20436

Dear Commissioners:

Recently you received [a letter](#) from Senators Warren, Brown, Merkley, Baldwin, and Markey offering criticisms of the ITC's June 2021 report, "[Economic Impact of Trade Agreements Implemented under Trade Authorities Procedures.](#)" The extent to which the authors appear not to understand the economics of trade and the relationship between trade and labor markets was a surprise. Many of their claims struck me as poorly informed and not overly objective. My view is that the senators focused far too heavily on labor market adjustments that result from trade liberalization and not at all on the larger and pernicious labor market adjustments that take place in response to protectionism. The overarching concern with the letter is that it seems to be based on the misconception that trade is the source of all problems in the U.S. labor market. In reality, trade accounts for a modest percentage of jobs lost in the manufacturing sector, yet trade seems to get blamed for all the challenges faced by factory workers.

The Commission's capable economists no doubt can address details relating to the econometric modeling underpinning the study along with other technical questions that have been presented. Given my background at the Commission and my career dedicated to pursuit of open and competitive markets, my comments will address broader issues raised by both the senators' letter and flaws with the ITC's report.

The China Shock

The letter cites a 2016 paper, "[The China Shock: Learning from Labor-Market Adjustment to Large Changes in Trade,](#)" by Autor, Dorn, and Hanson as the basis for some of its assertions. Quoting from p. 3: "*But as Professor David Autor and his colleagues identified in the "China Shock" research on trade-related job loss, it can take "at least a full decade" for wages and employment rates to recover in local markets that have been hit hard by new import competition.*" More value would have been gleaned by taking a closer look at portions of the Autor paper that put trade-related manufacturing job losses into context.

Autor's paper references (p. 227) the 2016 study, "[Import competition and the great US employment sag of the 2000s,](#)" by Acemoglu, Autor, Dorn, Hanson, and Price. He measures the China shock from 1999-2011. U.S. [manufacturing employment](#) peaked in 1979 at 19.4 million. By January 1999, factory workers totaled 17.4 million. By January 2011 the figure was 11.6 million, which is 5.8 million (33 percent) fewer than in 1999. For comparison, pre-pandemic manufacturing employment in 2019 was 12.8 million.

The disappearance of 5.8 million manufacturing jobs over those years certainly is significant. But what was the cause of the employment decline? Autor explains (pp. 227-228) that directly trade-related job losses amounted to 985,000 (17 percent). Adding in employment declines in firms that sell goods and services to trade-exposed companies brings the nationwide tally to 2 million jobs, or 34.5 percent of the overall reduction. The most expansive estimate of job losses – 2.4 million – would equal 41.4 percent of the decline. That number is derived from an analysis of hard-hit areas in which income reductions led to reduced local demand. Autor at p. 228: *“If increased trade exposure lowers aggregate employment in a location, reduced earnings will decrease spending on nontraded local goods and services, thus magnifying the local impact.”* However, the methodology for examining local effects doesn’t integrate seamlessly with the assessment of national effects, which leaves a meaningful degree of uncertainty as to the most appropriate number.

A similar 2017 study by Hicks and Devaraj, [“The Myth and Reality of Manufacturing in America,”](#) focuses on manufacturing jobs lost in firms that compete directly with imports. It covers a slightly different period, 2000-2010. Actual job losses over those years amounted to 5.6 million, of which they found 757,000 (13.4 percent) were due to import competition.

Hicks and Devaraj offer thoughts (p. 6) on the study by Acemoglu:

Acemoglu, et. al. approach included general equilibrium effects, they also estimated the impact of lower employment in manufacturing on other sectors. One way to approximate this is to apply a general multiplier from an economic input-output model (or short-run general equilibrium effects). That would yield manufacturing-related job losses due to imports of roughly 1.6 million workers economy wide. If we adjust Acemoglu, et. al. estimates to the shorter time period we examine, we get between 1.4 million and 1.7 million jobs lost during that time period due to import growth. This is an unusually close estimate using two very different methods of assessment.

These scholarly studies lead to the conclusion that somewhere between 13.4 percent and 34.5 percent of the loss of manufacturing jobs during the China shock was related to international trade. There is no doubt that trade was not the primary driver of labor adjustments in manufacturing during this century’s first decade. So what was? Quoting Hicks and Devaraj again:

Three factors have contributed to changes in manufacturing employment in recent years: Productivity, trade, and domestic demand. Overwhelmingly, the largest impact is productivity. Almost 88 percent of job losses in manufacturing in recent years can be attributable to productivity growth, and the long-term changes to manufacturing employment are mostly linked to the productivity of American factories. Growing demand for manufacturing goods in the U.S. has offset some of those job losses, but the effect is modest, accounting for a 1.2 percent increase in jobs beyond what we would expect if consumer demand for domestically manufactured goods was flat.

They further note (p. 5):

Had we kept 2000-levels of productivity and applied them to 2010-levels of production, we would have required 20.9 million manufacturing workers. Instead, we employed only 12.1 million.

It’s worth noting that the [value added by U.S. manufacturing](#) has increased relatively steadily over time, reaching an all-time record of \$2.2 trillion (on an annualized basis) in the first quarter of 2021. In other words, the output of the manufacturing sector has never been larger. Because of increased efficiency, that output is produced with a smaller number of workers than in years past.

Despite being an important part of the economy, American manufacturing accounts for only a small portion of overall employment. In 1999 [U.S. employment](#) was 133 million. Despite the disappearance of 5.8 million manufacturing jobs, the total number of people employed had risen to 140 million in 2011. Prior to the pandemic, the figure had grown to 158 million. Manufacturing workers as a share of overall employment declined from 13.1 percent in 1999 to 11.6 percent in 2011 to 8.1 percent by late 2019. Labor movement out of manufacturing during the China shock coincided with impressive job growth elsewhere. Although such shifts are likely never to be easy, it certainly is preferable for them to take place when the broader job market is robust.

A final thought on the China shock itself – it ended ten years ago and seems highly improbable to be repeated. Trying to develop policies to counter an equivalent trade-related shock to manufacturing employment is akin to preparing to fight the last war.

Under these circumstances, it seems a fool’s errand to try to address labor market challenges via changes in trade policy, as the senators’ letter suggests. Their questions might better have been directed to the Department of Labor rather than to the ITC. Or perhaps they would wish to encourage the Department of Commerce to pursue policies that discourage automation, which deserves so much of the “blame” for increasing manufacturing productivity and reducing the demand for manufacturing workers. More constructively, policymakers who are concerned about labor market inequities also have the option of seeking enhanced measures intended to strengthen the human capital of workers. This would allow people to respond more effectively and flexibly to changing opportunities in labor markets.

The ITC study shows important economic progress

The senators’ letter reflects the common view that benefits of trade liberalization are small, perhaps even less than the costs. A closer examination reveals that not to be the case.

From pp. 2-3 of the letter:

On its face, the USITC report does not present a strong endorsement of recent U.S. trade agreements. The Commission describes the studied agreements as having had a “small but positive effect on the U.S. economy.” The report estimates that in 2017, the studied agreements led to 485,000 full-time equivalent jobs and a 0.5% increase in U.S. gross domestic product (GDP).

But is that a worthwhile benefit to the economy, or not? [Prof. Kadee Russ](#), an economist at UC Davis, has written that results are meaningful:

The USITC reported that 12 bilateral free trade agreements (FTAs), plus two regional FTAs (the North American Free Trade Agreement [NAFTA] and the Dominican Republic-Central America-United States Free Trade Agreement [CAFTA-DR]), all negotiated and implemented under TPA, resulted in the US economy being [one half of a percent bigger](#) than what it would have been without the agreements in place. The growth was accompanied by almost [half a million](#) additional jobs and [\\$133 billion](#) in additional two-way US trade with the world. ...

Context is important. First, the USITC’s number is substantial. Averaged over all US households, half of a percent of GDP works out to more than \$800 per US household in 2017. This is large if one

considers that even before the pandemic, 40 percent of US households [did not have \\$400](#) available to cover an emergency expenditure.

Prof. Russ emphasizes the substantial gains from services liberalization identified by the ITC:

Table 3.5 of the report shows that agreements negotiated under TPA generated an average reduction in one-way trade frictions of 10 percent for financial services, 12 percent for business services, and 18 percent for communications services. Increased integration of markets for services under TPA-negotiated agreements led to an increase in US domestic service sector output of nearly \$100 billion (core and noncore services in [table 3.8](#)) and created over 440,000 jobs, more than 90 percent of the net employment gain found in the study. The boost in services production is 40 percent of the size of the overall US trade surplus in services with the world as a whole.[\[4\]](#)

Thus, in the context of U.S. economic growth and its implications for individuals and households, the analysis of Prof. Russ indicates there have been important gains.

The ITC study understates the gains from liberalization

NAFTA

Despite the fact that it shows positive economic results, the study meaningfully understates the benefits of U.S. efforts to liberalize trade. Dr. Gary Clyde Hufbauer, a senior fellow at the Peterson Institute for International Economics, raises a concern in a [blogpost](#) regarding the way the Commission's analysis of NAFTA was conducted:

NAFTA has been by far the most important free trade agreement the United States has undertaken in the last few decades. The USITC estimated that NAFTA lowered trade barriers between the United States and its two partners, Canada and Mexico, by 8.1 percentage points. [\[1\]](#) . . .

The USITC did not separately analyze the Canada-US FTA of 1989. However, that agreement essentially eliminated merchandise trade barriers between the US and Canada, with the exception of agriculture. The NAFTA of 1994 made very little change in US-Canada barriers (including no meaningful liberalization of agricultural trade). What NAFTA did was reduce US-Mexico barriers, particularly Mexican tariff and nontariff barriers. If the USITC had properly recognized this fact and estimated a percentage point reduction in US-Mexico barriers, the reported figure would have been much larger than 8.1 percentage points.

In other words, the Canada-U.S. FTA didn't receive full credit for the tariff reductions it accomplished. Subsuming the analysis of CUSTA into the analysis of NAFTA led to a diminished estimation of the benefits received by the United States from Mexico's tariff reductions.

China

China's WTO accession in 2001 did not require a vote by Congress under TPA procedures, so trade with China is not specifically within the statutory remit of the study. Congress did vote, though, on whether to grant China permanent normal trade relations (PNTR). From my personal experience, that vote was quite similar in its political context to votes on trade agreements. In my view the study would have been strengthened if it had included at least a sidebar discussion acknowledging the importance of the U.S.-China trading relationship. Among other comments, Dr. Hufbauer writes:

From pre-WTO accession to 2017, US-China two-way merchandise trade expanded 5.65 times in current dollars, while US trade with the rest of world increased only 1.75 times. Again, other forces were at play, most notably the transformation of the Chinese economy (owing in part to WTO accession). However, if US-China trade had grown only as fast as US trade with the rest of the world, in 2017 US-China two-way merchandise trade would have been \$203 billion, rather than \$656 billion—a difference of \$453 billion. Put another way, this counterfactual exercise suggests that, if Chinese accession were properly recorded as a trade agreement, the USITC’s report might suggest US-China trade creation approaching \$453 billion, plus whatever trade creation could be attributed to NAFTA and all other US trade agreements.

An increase of this magnitude in bilateral trade has doubtless produced substantial economic benefits for both countries. And since the expansion of economic ties with China was one of the most noteworthy developments in U.S. trade during the time period under consideration, a bit of recognition would have been in order.

Uruguay Round

My strongest criticism of the study deals with its treatment of the Uruguay Round, which Congress voted to approve under fast-track procedures in 1994. I’m not inexperienced in reading and understanding Commission reports, so will say frankly that I found the study’s presentation of that agreement to be misleading. Because it was a major agreement achieved during the relevant timeframe, my starting assumption had been that it had been fully incorporated into the analysis. My reading of the executive summary (p.13) informed me that:

The trade agreements covered include the multilateral Uruguay Round Agreements as well as 16 U.S. bilateral and regional trade agreements.

The related footnote (#2) elaborates:

In chronological order, this encompasses U.S. bilateral agreements with Israel and Canada; the North American Free Trade Agreement (NAFTA); the Uruguay Round Agreements (URAs); . . . The URAs include the Agreement Establishing the World Trade Organization (WTO) and its several annexes containing the WTO agreements discussed in more detail in chapter 2 among others.

So I was of the view that the Uruguay Round was fully analyzed by the study. It fell to Prof. Russ to set me straight in her [footnote #2](#):

2. The USITC writes that although the agreements coming out of the Uruguay Round were negotiated under TPA, it could not include them in its estimate of benefits of agreements for the whole US economy, due to data constraints (see the [second paragraph on page 87](#) of report, as well as footnotes 10, 419, and 449). Note, however, that [the executive summary \(footnote 2\)](#) and introduction (paragraph 2 on page 19, "[Scope](#)") could be erroneously interpreted to suggest that the Uruguay Round agreements are included in the estimates, as the USITC says they are "covered" in the report as having been negotiated under TPA.

If data issues with the Uruguay Round were problematic, I can understand why it may have been infeasible to include it in the economic analysis. However, it would have been very helpful to readers to make this abundantly clear instead of glossing over it in a way that seems surreptitious. Keep in mind that the Commission frequently provides qualitative analyses of issues that aren’t possible to quantify, yet I found no such section in this study.

The Uruguay Round's provisions pertaining to agriculture and sanitary/phytosanitary issues were groundbreaking. As Prof. Russ writes:

As an example of what excluding the Uruguay Round agreements means, consider the WTO Agreement on Agriculture and the WTO Agreement on the Application of Sanitary and Phytosanitary Measures (SPS)—both negotiated in the Uruguay Round under TPA. These two agreements enter into the economywide estimate only insofar as their provisions were adopted into later agreements negotiated under TPA, which together constitute about one-quarter of US trade. [3] Given this constraint, the USITC's estimated impact naturally misses the majority of the story on TPA and US agricultural trade.

The Uruguay Round was far more comprehensive in terms of the nations to which it applied than any other agreement. Many of the tariff reductions undertaken by other countries were helpful to American exporters. U.S. tariff reductions served as tax cuts that increased economic opportunities for American companies and consumers as they engaged with most of the rest of the world. Perhaps only NAFTA has provided greater benefits to the United States, or maybe the Uruguay Round ranks on top. Due to the data limitations cited, we may never know.

My hope is that future ITC studies will be presented in a way that minimizes the potential for misunderstandings such as noted above.

Recognizing the effects of protectionist measures

The final issue I'll raise is relevant to understanding the context of the study, but clearly isn't within the established scope. As we try to assess the benefits and costs flowing from policy efforts to liberalize trade, it's relevant also to consider the benefits and costs of policies that restrict trade. Those would cover not only AD/CVD measures and safeguards with which the Commission is directly involved. They also would include provisions such as tariffs, tariff-rate quotas (TRQs), Buy American, cabotage and dredging restrictions, limitations on foreign ownership, voluntary restraint agreements, etc.

In the current situation, some senators have the view that gains from trade agreements have been small or negative. Thus, it may be worthwhile for the Commission to review the net effects of trade-related policies. Would it be feasible to examine the economics of easily quantifiable protectionism implemented during the period of the trade agreements study? Looking just at trade agreements tells only half the story. It's like trying to drive with one foot on the accelerator (efforts to lower barriers) while not being willing to acknowledge that the car isn't moving because the other foot is stomped heavily on the brake (protectionism). It would be interesting to know how much the United States would have benefited from trade agreements under circumstances in which the country hadn't also been going out of its way to curtail imports of a wide range of goods and services.

Some people think more favorably of protection when DOC has determined imports to be "unfair." From an economic standpoint, restrictions imposed on imports considered to be unfair are every bit as harmful to U.S. economic welfare as restrictions on products thought to be fairly priced. ITC commissioners have a ring-side seat (Well, at least a seat at the dais.) as this discourse plays out in trade remedy deliberations. During my tenure at the Commission, I voted on several hundred AD/CVD investigations. The website indicates more than 500 AD/CVD orders currently are in place, many of them on intermediate goods used by American companies to manufacture finished products.

Statute requires those investigations to be decided based only on material injury to the petitioning companies. Weighing potential harm to importers and users against potential benefits to domestic producers is not permitted. This frequently created a conundrum for me. I voted in the affirmative the large majority of the time based on

requirements of the statute. It caused me consternation to do so, though, when it was clear that losses to the overall economy would be much greater than possible gains to the domestic industry.

The Commission must enforce the statute rather than try to change it. My hope is that the law eventually will be reformed so that AD/CVD measures would only go into force when it is determined that doing so will benefit the overall economy. It's a skewed system that requires the ITC to approve measures that make our country poorer.

Allow me to close by apologizing for the length of this letter and by thanking you for your attention to the issues it raises. From my perspective, it appears the Commission has had its hands full with a very heavy caseload while also dealing with Covid and all its attendant complications. Your efforts are very much appreciated. I look forward to seeing you again in the reasonably foreseeable future.

Sincerely and with best wishes,

A handwritten signature in blue ink that reads "Daniel R. Pearson". The signature is fluid and cursive, with the first letters of each word being capitalized and prominent.

Daniel R. Pearson
Trade Policy Fellow, Americans for Prosperity
Former ITC Chairman and Commissioner (2003-2013)

CC: William M. Powers, Director, Office of Economics
Catherine B. DeFilippo, Director of Operations