

## International trade regulation and job creation

### Trade policy is not an employment policy and should not be expected to have major effects on overall employment

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#### ELEVATOR PITCH

Trade regulation can create jobs in the sectors it protects or promotes, but almost always at the expense of destroying a roughly equivalent number of jobs elsewhere in the economy. At a product-specific or micro level and in the short term, controlling trade could reduce the offending imports and save jobs, but for the economy as a whole and in the long term, this has neither theoretical support nor evidence in its favor. Given that protection may have other—usually adverse—effects, understanding the difficulties in using it to manage employment is important for economic policy.



#### KEY FINDINGS

##### Pros

- + Protecting import-competing sectors can increase the number of jobs they offer or at least reduce the rate of decline.
- + Labor market adjustment to a trade reform is slow, so there may be costs to liberalization in the short and medium terms.
- + A trade liberalization may cause a shift from formal to informal employment, which is often held to be inferior.

##### Cons

- Through its effects on the rest of the economy, the protection of one sector reduces the jobs available in other, export-oriented, sectors.
- In the long term, trade liberalizations can boost employment and, other things being equal, more open economies have higher levels of employment.
- Trade reform is frequently associated with an increase in the number of “better” jobs.
- Trade reform may cause intrasectoral reallocation from less to more efficient firms within sectors.

#### AUTHOR'S MAIN MESSAGE

Trade policy is not an employment policy and should not be expected to have major effects on overall employment. When it does so, it is because it interacts with distortions in labor markets, which vary from country to country and time to time. No generalization is feasible, and seeking to make one is pretty much a fool's errand. Policymakers wanting to boost employment should think about the aggregate economic balance and labor market institutions, and not interfere with international trade.