

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 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 position has neither theoretical support nor empirical 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

- ⊕ The effects of major trade policy changes on aggregate employment are mixed.
- ⊕ Through its effects on the rest of the economy such protection is likely to reduce the jobs available in export-oriented sectors.
- ⊕ Trade reforms do not increase the ratio of informal to formal employment.
- ⊕ Protecting import-competing sectors can increase the number of jobs they offer—or at least reduce the rate of decline.

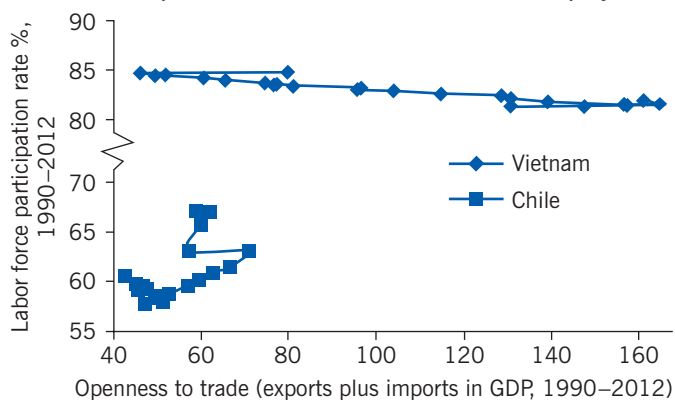
Cons

- ⊖ In the long term, trade liberalizations can boost employment (at least in developing countries).
- ⊖ More open economies have higher levels of employment, other things being equal.
- ⊖ Trade reform does not appear to cause large reallocations of labor between sectors.
- ⊖ Trade reform may still 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.

No relationship between international trade and employment



Source: World Development Indicators. Online at: <http://data.worldbank.org/data-catalog/world-development-indicators>.