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*Imports, Exports, and Jobs. What Does Trade Mean for Employment and Job Loss?* by Lori G. KLETZER, Kalamazoo, Michigan: W.E. Upjohn Institute for Employment Research, 2002, 221 pp., ISBN 0-88099-247-6.

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***Imports, Exports, and Jobs. What Does Trade Mean for Employment and Job Loss?***

by Lori G. KLETZER, Kalamazoo, Michigan: W.E. Upjohn Institute for Employment Research, 2002, 221 pp., ISBN 0-88099-247-6.

In this book, the author takes on an important and timely question: what does trade mean for employment and job loss? The short answer is that while there is a positive correlation between increased imports and job loss, the popular press focus on this aspect of trade ignores the correlation between increased exports and job growth. As a result, the naive policy prescription of restricting imports will likely also result in export reductions, which will themselves lead to job loss. The author notes that, instead, the policy implication of these findings is less one of trade policy, than one of labour market policy. That is, that while the overall effects of increased trade are positive, individual workers will suffer from job displacement and can benefit from such things as unemployment extensions and job search and training assistance.

The book begins with an overview chapter that lays out the basic argument referred to above. Chapter 2 is likely to be especially useful for the average labour economist, who is typically not up on the details of trade theory. In this chapter, the author outlines the basics of such things as Heckscher-Ohlin theory, the Stolper-Samuelson theorem and factor-price equalization. While this is all second nature for the trade economist, I found it useful to have it all laid out in one place like this. The chapter continues by discussing extensions to these models (e.g. “new” trade theory) and by reviewing different ways to empirically measure trade.

Chapter 3 then moves ahead with a review of the existing literature on globalization and labour markets. In line with the previous chapter, the review is organized in terms of both the theoretical models motivating it and the choice of trade measure. Again, from a labour

economist perspective, it was useful to see the literature that comes from the trade perspective clearly discussed. Most labour economists are likely to be mainly familiar with work which is focused more broadly on increasing inequality, using the effect of trade on wages as one aspect of the question. In fact, this is the majority of the literature, with papers focusing on employment or job loss being in a clear minority. As a result, the more detailed analysis of employment and job displacement which follows is welcome.

The first step in the empirical analysis is Chapter 4, which is a descriptive look at trends in trade, employment and job loss. The study is limited to manufacturing between 1979 and 1994, and within manufacturing, across industry differences are explored using 3-digit CIC industry. While the univariate tables reveal some patterns in which greater import penetration appears associated with greater employment loss, simple descriptives are generally not overly persuasive. Thus, the rest of the book focuses on carefully modeling the relationship between imports, exports and jobs. Chapter 5 presents the empirical model of industry employment (or job loss) and trade. The model is partial equilibrium and generally straightforward. The casual reader will probably be no worse off simply skimming the details and plunging right into the reduced form estimates of Chapter 6 and 7. However, for the academic reader, it is useful to go through the derivations, and bear in mind the assumptions and caveats while reviewing the results.

The meat of the book is found in Chapters 6 and 7. The main models include industry and year effects, and investigate the effect of various measures of trade on industry employment

(or job displacement). The first model simply uses the change in  $\ln(\text{sales})$ , while another splits this up into changes in domestic demand, exports and imports. Additionally, imports are further subdivided into those from developed countries and those from less developed countries. Appropriate additional controls, such as the change in industrial production and in the wage, are included in all models. These models reveal a strong positive relationship between  $\ln(\text{sales})$  or domestic demand and industry employment, and a similar sized negative relationship between import share and employment. The positive relationship between employment and exports is much larger—almost twice the size in some specifications.

An interesting exercise at the end of Chapter 6 simulates freezing trade flows at their 1979 levels. The result is that freezing both imports and exports would have resulted in a 16.4 percent decline in employment, rather than the 13.4 percent decline which was actually observed. The key here is that while increased imports can be associated with a loss of 11,693 jobs in the average industry, increased exports are associated with an average gain of 14,235 jobs. Chapter 7 presents models similar to those in Chapter 6, but focusing on job displacement rates, rather than employment. Within industry there is again a very strong role for exports, wherein rising exports reduce job loss. While increases in imports are positively associated with job loss, the effect is not significantly different from zero. Only in across-industry models do imports become significant, and then it is mainly driven by less-developed country imports.

Finally, Chapter 8 concludes and provides some policy discussion. One major conclusion of the book is in agreement with much of the past literature—that changes in trade cannot fully explain manufacturing's decline over the past few decades. The main conclusion that has not been emphasized in the past, however, is the important role played by changes in exports relative to changes in imports. Given the relatively modest effect of overall trade flows and the positive role played by exports, Chapter 8's policy discussion rightly focuses on domestic adjustment assistance policy, rather than on international trade policy. An overview of existing programs such as the Trade Adjustment Assistance (TAA) component of the unemployment insurance system is provided, and the possibility of new programs, such as wage insurance, is discussed.

Overall, *Imports, Exports and Jobs* is a useful book for the labour economist interested in this important issue. It is unfortunate, though, that the data ends in 1994, missing the strong growth of the late 1990s. Given the changes over time in the years studied, the most up-to-date data would be interesting. Additionally, some discussion of the more recent phenomenon of trade in services (e.g., overseas call centres, medical transcription, etc.) would be welcome. Nonetheless, as it stands, it provides a nice analysis of trade and employment in manufacturing over the 1980s and early 1990s, and it fills a significant gap in the literature of the effect of trade on jobs and employment.

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