

United States Senate
WASHINGTON, DC 20510

September 20, 2021

The Honorable Jason E. Kearns
Chair
U.S. International Trade Commission
500 E Street, SW
Washington, DC 20436

The Honorable Randolph J. Stayin
Vice Chair
U.S. International Trade Commission
500 E Street, SW
Washington, DC 20436

The Honorable David S. Johanson
Commissioner
U.S. International Trade Commission
500 E Street, SW
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The Honorable Rhonda K. Schmidlein
U.S. Commissioner
International Trade Commission
500 E Street, SW
Washington, DC 20436

The Honorable Amy A. Karpel
U.S. Commissioner
International Trade Commission
500 E Street, SW
Washington, DC 20436

Dear Chair Kearns, Vice Chair Stayin, Commissioner Johanson, Commissioner Schmidlein, and Commissioner Karpel:

We write to express serious concern regarding a disturbing series of assumptions and omissions that distort the findings of the U.S. International Trade Commission’s (“USITC” or “Commission”) June 2021 report on the economic impact of U.S. trade agreements.¹ The Commission claims the trade agreements it studied had a “small but positive effect on the U.S. economy.”² But that conclusion is based on an analysis that uses wholly unrealistic models of the U.S. labor market and that systematically ignores the negative effects of trade agreements on workers, particularly workers of color, and on the overall health of the American economy. We urge the Commission to reconsider how it assesses the impact of trade agreements, both with respect to backwards-looking analyses, such as this report, and for any analysis of new trade deals in the future. We must get this analysis right and ensure that future trade deals work for American workers and foreign workers alike.

¹ U.S. International Trade Commission, “Economic Impact of Trade Agreements Implemented under Trade Authorities Procedures, 2021 Report,” June 2021, <https://www.usitc.gov/publications/332/pub5199.pdf> (hereinafter “Report”).

² *Id.* at 15.

Findings of the USITC Report on the Impact of U.S. Trade Agreements

The USITC’s report, “Economic Impact of Trade Agreements Implemented under Trade Authorities Procedures,” was statutorily required under the *Bipartisan Congressional Trade Priorities and Accountability Act of 2015*.³ That act mandated that USITC submit a report to the Senate Finance Committee and other governmental entities on “the economic impact on the United States of all trade agreements” implemented under certain “fast track” approval procedures since 1984.⁴

This analysis comes at a critical time for U.S. trade policy. For too long, our trade agreements have been written under the influence of corporate lobbyists and put corporate profits before American workers. Big corporate interests dominate the trade advisory committees that whisper in the ears of trade negotiators, while workers’ concerns are too often ignored.⁵ Bad process leads to bad outcomes, including trade agreements without strong, enforceable labor and environmental standards. This flawed approach has to stop.

We are pleased that the Biden-Harris administration has committed to pursuing a trade policy that centers workers, environmental protection, and racial equity.⁶ But to accomplish that, we must properly understand where trade policymaking has gone wrong, and then take concrete steps to address the structural roots of those errors. That’s why it is so important to get this analysis right. Overly optimistic and simplistic estimates that ignore the negative impacts of trade deals do not help us make informed policy decisions.

On its face, the USITC report does not present a strong endorsement of recent U.S. trade agreements. The Commission describes the studied agreements⁷ as having had a “small but

³ 19 U.S.C. 4204(f)(2).

⁴ *Id.*

⁵ In past trade negotiations, trade advisory committees have been provided official, direct access to negotiators and negotiating documents that were unavailable to the public and many in Congress. The advisory committees were also afforded official opportunities to submit written proposals and comments on government proposals. Washington Post, “How companies wield off-the-record influence on Obama’s trade policy,” Christopher Ingraham, February 28, 2014, <https://www.washingtonpost.com/news/wonk/wp/2014/02/28/how-companies-wield-off-the-record-influence-on-obamas-trade-policy/>.

⁶ U.S. Trade Representative, “2021 Trade Policy Agenda and 2020 Annual Report of the President of the United States on the Trade Agreements Program,” March 2021, <https://ustr.gov/sites/default/files/files/reports/2021/2021%20Trade%20Agenda/Online%20PDF%202021%20Trade%20Policy%20Agenda%20and%202020%20Annual%20Report.pdf>.

⁷ “[T]his group of agreements encompasses U.S. bilateral trade agreements with Israel and Canada; the North American Free Trade Agreement (NAFTA) with Canada and Mexico; the multilateral Uruguay Round Agreements; U.S. bilateral agreements with Jordan, Singapore, Chile, Australia, Morocco, and Bahrain; a U.S. regional trade agreement with the Dominican Republic and five Central American countries (CAFTA-DR), including El Salvador, Honduras, Nicaragua, Guatemala, and Costa Rica; five more U.S. bilateral agreements with Oman, Peru (PTPA), Korea (KORUS), Colombia, and Panama; and the United States-Mexico-Canada Agreement (USMCA) with Canada and Mexico.” Report at 19-20.

positive effect on the U.S. economy.”⁸ 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).⁹ But it also finds that these “gains in jobs were not distributed evenly, with the biggest gains in employment estimated for college-educated male workers.”¹⁰ And the report confirms that “[s]ome industries in the manufacturing sectors lost a substantial number of jobs.”¹¹

Egregious Flaws in the USITC Analysis

The Commission’s analysis suffers from deep flaws that, if corrected, would cast serious doubt upon even its tepid conclusions about the benefits of the trade agreements analyzed in its study. The report assumes away or ignores nearly all of the negative impacts of trade, especially the negative impacts on workers. As Chair Kearns acknowledged in his “Additional Remarks,” the Commission reached its positive assessment of U.S. trade agreements by relying “on unrealistic assumptions about the economy.”¹² The USITC assumed “full employment” -- in other words, “that trade agreements cannot cause unemployment” and that everyone seeking a job will be employed.¹³ The USITC also assumed “costless switching,” which means it did not consider the costs of temporary unemployment and employment transitions across sectors, and instead assumed “that workers have the ability to freely move across industries and occupation.”¹⁴

It is not clear why the USITC analysis used these unrealistic assumptions that do not reflect economic reality or the situations faced by American workers. It is patently obvious that the U.S. economy has not seen full-employment conditions for the vast majority of the last five decades, if ever. Similarly, it is absurd to ignore the fact that for workers, layoffs are devastating. Job displacement “is associated with subsequent unemployment, long-term earnings losses, and lower job quality; declines in psychological and physical well-being . . . social withdrawal; family disruption; and lower levels of children’s attainment and well-being.”¹⁵ And finding a new job is far from “costless.” The Commission assumes laid off workers will find new work in the long term. 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.¹⁶ Moreover, workers are often driven to jobs in sectors characterized by low productivity, slow productivity

⁸ Report at 15.

⁹ *Id.*

¹⁰ *Id.*

¹¹ *Id.*

¹² *Id.* at 219.

¹³ *Id.*

¹⁴ *Id.*

¹⁵ Annual Review of Sociology, “The Far-Reaching Impact of Job Loss and Unemployment,” Jennie E. Brand, August 2015, <https://pubmed.ncbi.nlm.nih.gov/26336327/>.

¹⁶ Annual Review of Economics, “The China Shock: Learning from Labor-Market Adjustment to Large Changes in Trade,” p. 205, David H. Autor, David Dorn, and Gordon H. Hanson, 2016, <https://www.annualreviews.org/doi/pdf/10.1146/annurev-economics-080315-015041>.

growth, and lagging wages.¹⁷ By presuming full employment and frictionless adjustment between jobs, the Commission takes the worst impacts of trade on workers and rules them out by fiat, rendering the report's topline findings useless because they are based on a series of assumptions that do not reflect reality.

The USITC report also ignores how trade impacts workers differently based on their region, race, and other characteristics. The impacts of trade “are highly unevenly distributed across workers,”¹⁸ and other methodological approaches have sought to examine these unequal impacts.¹⁹ Yet the Commission devoted only two pages of its 300-page report to discussing the effects of trade across different racial groups and regions of the country.²⁰ The report does include some analysis by gender and education, but only at a very general level, estimating that employment gains mainly went to college-educated men.²¹ Furthermore, as Chair Kearns notes, “as a result of the unrealistic assumptions in the economy-wide modeling, this report improbably concludes that all demographic subgroups (‘labor types’) analyzed gained from trade agreements.”²² The lack of robust distributional analysis is a critical omission that will hinder Congress and the Executive Branch’s ability to evaluate new trade agreements and any necessary supplementary policy measures.

The effects of trade are not distributed evenly across the country, but instead are geographically concentrated in a small number of places;²³ similarly, the effects of trade are also distributed unevenly by race: among U.S. workers hurt by trade policies, “Black and Latino workers have suffered disproportionate injury.”²⁴ As a group of Howard University economists recently explained, trade shocks have a “cascading effect . . . on the economic security of Black workers as a result of broader structural disadvantages in the U.S. labor market that many workers of color face.”²⁵ Black and Latino workers are disproportionately represented in industries hit

¹⁷ Institute for New Economic Thinking, “The American Dual Economy: Race, Globalization, and the Politics of Exclusion,” Peter Temin, November 19, 2015, <https://ssrn.com/abstract=2692634>; International Journal of Political Economy, “Race to the Bottom: Low Productivity, Market Power, and Lagging Wages,” Lance Taylor and Özlem Ömer, April 29, 2019, <https://www.tandfonline.com/doi/full/10.1080/08911916.2018.1550951>; Institute for New Economic Thinking, “The New Normal: Demand, Secular Stagnation and the Vanishing Middle-Class,” Servass Storm, May 17, 2017, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2993957.

¹⁸ Quarterly Journal of Economics, “Trade Adjustment: Worker-Level Evidence,” David H. Autor, David Dorn, Gordon H. Hanson, and Jae Song, p. 1799, 2014, <https://economics.mit.edu/files/11606>.

¹⁹ Econometrica, “Trade and Labor Market Dynamics: General Equilibrium Analysis of the China Trade Shock,” Lorenzo Caliendo, Maximiliano Dvorkin, and Fernando Parro, May 20, 2019, <https://onlinelibrary.wiley.com/doi/abs/10.3982/ECTA13758>.

²⁰ Report at 206-07.

²¹ *Id.* at 15.

²² *Id.* at 220.

²³ IZA World of Labor, “Trade and labor markets: Lessons from China’s rise,” p. 5, David H. Autor, February 2018, <https://chinashock.info/wp-content/uploads/2018/02/Lessons-from-Chinas-Rise-IZA.pdf>.

²⁴ Public Citizen, “Trade Discrimination: The Disproportionate, Underreported Damage to U.S. Black and Latino Workers from U.S. Trade Policies,” report, p. 5, January 2021, https://mkus3lurbh3lbztg254fzode-wpengine.netdna-ssl.com/wp-content/uploads/PC_Trade-Discrimination-Report_1124.pdf.

²⁵ Groundwork Collaborative, “The Impact of Trade On Black Workers,” report, p. 1-2, Grace Western, Daniella

hardest by import competition²⁶; they are less likely than their white counterparts to find a replacement job²⁷; and when they find new jobs, they face disproportionate pay cuts.²⁸ The USITC’s report ignore these pernicious impacts of trade. If the USITC is relying on analyses that ignore the regional and racial effects of U.S. trade policy, our trade policy will continue to exacerbate inequities and hurt the most disadvantaged American workers and communities.

Overall, the Commission’s report takes a myopic view of the U.S. economy and the effects of trade agreements. It does not examine whether jobs created by trade policy improved standards of living, raised workers’ wages, or reduced income inequality. It does not assess whether trade agreements have intensified the threat of outsourcing and reduced American workers’ ability to bargain with their employers.²⁹ It does not consider whether U.S. trade policies have increased market concentration, helping large corporations at the expense of smaller businesses and consumers.³⁰ It does not ask whether offshoring manufacturing has caused the United States to lose technological expertise and capacity, making us less resilient and less capable of absorbing supply chain shocks like those seen in the early days of the COVID-19 pandemic.³¹ And it assumes that important domestic rules and regulations such as labor standards, environmental protections, and consumer safety provisions are “unnecessary obstacle[s] to trade” that we should seek to eliminate during trade negotiations.³² These issues get to the heart of whether the American economy is healthy, resilient, and working for all of us.

The extensive, existing third-party research cited in this letter demonstrates that the USITC can and must incorporate these far-reaching impacts on American workers into the Commission’s analysis of trade agreements. However, we am also interested in understanding where data limitations exist, and what steps could be taken to better equip the USITC to conduct this

Zessoules, Nyana Browne, Bethel Cole-Smith, and William Spriggs, June 2021,

<https://groundworkcollaborative.org/wp-content/uploads/2021/06/The-Impact-of-Trade-on-Black-Workers.pdf>.

Other research points to the long-term impacts of trade shocks in workers and communities. American Economic Review, “The Persistence of Local Joblessness,” Michael Amior and Alan Manning, July 2018,

<https://www.aeaweb.org/articles?id=10.1257/aer.20160575>; American Economic Review, “When Work Disappears: Manufacturing Decline and the Falling Marriage Market Value of Young Men,” David Autor, David Dorn, and Goron Hanson, September 2019, <https://www.aeaweb.org/articles?id=10.1257/aeri.20180010>.

²⁶ Public Citizen, “Trade Discrimination: The Disproportionate, Underreported Damage to U.S. Black and Latino Workers from U.S. Trade Policies,” report, p. 5, January 2021, https://mkus3lurbh3lbztg254fzode-wpengine.netdna-ssl.com/wp-content/uploads/PC_Trade-Discrimination-Report_1124.pdf.

²⁷ *Id.* at 7.

²⁸ *Id.* at 8.

²⁹ Report at 220.

³⁰ Federal Reserve Bank of New York, “U.S. Market Concentration and Import Competition,” report, p. 13, May 2021, Mary Amiti and Sebastian Heise,

https://www.newyorkfed.org/medialibrary/media/research/staff_reports/sr968.pdf.

³¹ The Atlantic, “The Modern Supply Chain is Snapping,” Lizzie O’Leary, March 19, 2020,

<https://www.theatlantic.com/ideas/archive/2020/03/supply-chains-and-coronavirus/608329/>; World Development, “The mutual constraints of states and global value chains during COVID-19: The case of personal protective equipment,” Mark P. Dallas, Rory Horner, and Lantian Li, March 2021,

<https://www.sciencedirect.com/science/article/abs/pii/S0305750X20304514?via%3Dihub>.

³² Report at 219.

analysis. For example, the Commission concluded that “the ever-present threat of offshoring production to Mexico in the absence of enforceable labor provisions combined with tariff reductions on Mexican imports likely weakened U.S. manufacturing workers’ ability to bargain for higher wages; but standard models cannot account for that.”³³ This analysis was based on data from the International Labor Comparisons program, which was discontinued by the Bureau of Labor Statistics in 2013. Although a successor program is maintained by The Conference Board, key data on hourly compensation costs in manufacturing have not been updated since 2016. As the USITC seeks to improve its analysis, it is vital to identify and address such data gaps to ensure we understand the challenges that American workers face.

Conclusions and Questions

At the conclusion of the USITC report, Chair Kearns argued that “the trade community needs to fundamentally rethink how to assess the impact of trade agreements on U.S. workers, businesses, and farmers.”³⁴ His analysis is 100% correct. For too long, U.S. trade policy has worked very well for giant corporations, but not for American workers and families. We need to clearly assess the impacts of past trade agreements, especially the impacts on workers and on the health of the economy as a whole, in order to negotiate better trade agreements going forward.

As a member of the Senate Finance Committee, we are seeking improvement in the USITC’s analyses, both for the purposes of backwards-looking review as conducted in this report, but also in any future studies on the potential impacts of new trade agreements. Accordingly, we ask that you respond to the below questions no later than October 5, 2021.

1. Why has the Commission failed to provide robust and complete analyses of the impacts of new trade agreements? Specifically,
 - a. Why has the Commission used unrealistic models of the U.S. labor market including but not limited to assuming full employment?
 - b. Why did the Commission assume costless job switching for workers who lose their job due to trade agreements?
 - c. Why did the Commission fail to undertake thorough distributional analyses of trade agreements?

³³ Report at 220.

³⁴ Report at 219.

- d. Why did the Commission fail to examine whether jobs that it concluded were created by trade agreements resulted in a net improvement in U.S. workers' standards of living, raised workers' wages, or reduced income inequality?
 - e. Why did the Commission fail to assess whether trade agreements have intensified the threat of outsourcing and reduced American workers' ability to bargain with their employers?
 - f. Why did the Commission fail to assess the impact of U.S. trade policies on market concentration, including with respect to trade agreement provisions granting special protections to pharmaceutical firms, certain investors, financial service firms and more?
 - g. Why did the Commission fail to assess the impact of U.S. trade policy on the offshoring of U.S. manufacturing facilities and capacity or and U.S. technological expertise and capacity?
 - h. Why did the Commission fail to assess the impact of U.S. trade agreements on domestic rules and regulations regarding labor standards, environmental and consumer safety protections, financial regulations, consumer privacy and other digital governance concerns, and on drug prices or the net effect of any such trade agreement provisions?
2. Can the Commission build upon and improve its analysis of the effects of the studied U.S. trade agreements?
- a. Can the Commission adopt a model that does not assume full employment or costless switching for workers?
 - b. Can the Commission analyze how the trade agreements have affected the quality of jobs available for workers, including any shifts in wages, benefits, or job security?
 - c. Can the Commission analyze how the trade agreements have affected workers by region or community?
 - d. Can the Commission analyze how the trade agreements have affected workers by racial group?

- e. Can the Commission analyze how the trade agreements have affected market concentration in the United States?
 - f. Can the Commission analyze how the trade agreements have affected the United States' technological capacity and the resilience of critical supply chains?
 - g. Can the Commission analyze how the trade agreements have affected important labor, environmental, and consumer safety standards, financial regulations, consumer privacy and other digital governance concerns, and the price of medications subject to intellectual property protections extended under U.S. trade agreements and also the net effect of any such trade agreement provisions?
3. Has the Commission conducted any of the analyses listed under Question #2? If so, what did they show? If not:
- a. How would they alter the Commission's assessment of the studied U.S. trade agreements?

What steps is the Commission taking to expand its capability to undertake each of the analyses listed under Question #2?

4. What additional sources of data, if any, are necessary for the Commission to conduct the analyses listed under Question #2? For example:
- a. Would the Commission's analysis benefit using from the Longitudinal Employer-Household Dynamics data maintained by the U.S. Census Bureau?
 - b. Would the Commission's analysis benefit using from the Trade Adjustment Assistance for Workers data maintained by the U.S. Department of Labor?
 - c. Would the Commission's analysis benefit from examination of other local or regional level datasets, given literature demonstrating that the effects of trade policy are geographically concentrated?³⁵
 - d. What steps is the Commission taking to access and analyze such data?

³⁵ IZA World of Labor, "Trade and labor markets: Lessons from China's rise," p. 5, David H. Autor, February 2018, <https://chinashock.info/wp-content/uploads/2018/02/Lessons-from-Chinas-Rise-IZA.pdf>.

- e. How does the Commission plan to obtain data comparable to that of the discontinued International Labor Comparisons program in order to measure the effectiveness of trade enforcement measures?
 - f. What other relevant data gaps exist based on discontinued data collection or publication by the government? How does the Commission plan to address such data gaps?
 - g. What, if any, Congressional action is necessary to facilitate the Commission's ability to access the data sources discussed above?
5. Will the Commission commit to including analyses listed under Question #2 in any future studies of the historical or potential impact of trade agreements?

Thank you for your attention to this important matter.

Sincerely,



Elizabeth Warren
United States Senator



Sherrod Brown
United States Senator



Jeffrey A. Merkley
United States Senator



Tammy Baldwin
United States Senator



Edward J. Markey
United States Senator