

## ECONOMICS, LABOR & BUSINESS

### *Does Trade Hurt Workers?*

"Are Your Wages Set in Beijing?" by Richard B. Freeman, "Income Inequality and Trade: How to Think, What to Conclude" by J. David Richardson, and "How Trade Hurt Unskilled Workers" by Adrian Wood, in *The Journal of Economic Perspectives* (Summer 1995), American Economic Assn., 2014 Broadway, Ste. 305, Nashville, Tenn. 37203-2418.

Is there a connection between the rising tide of cheap imports and the unhappy condition of less-skilled workers in the United States and Europe? American and European economists generally disagree—with each other.

In a survey of the debate, Harvard economist Freeman says that American economists—including Richardson, of Syracuse University—generally assign trade minimal blame, while European economists—such as Wood, of the University of Sussex—generally indict it.

About the plight of the less skilled, there is little debate: demand for their labor is falling. In the United States, the result has been stagnant or declining wages; in Europe, where wages are propped up by law and labor unions, the result has been rising unemployment.

Several recent studies, Freeman notes, have found that not "all that many" less-skilled American workers have lost manufacturing jobs as a result of increased trade. The reason is simple: only about 15 percent of such people are now employed in manufacturing. Most are in retail trade and services. They aren't competing with Indonesian garment workers and Chinese toy makers. Other factors—including technological change and the decline of unions—have been more important, he believes. Trade, by economists' most com-

mon method of calculation, accounts for only 10 to 20 percent of the overall fall in demand for unskilled labor.

Wood, however, maintains that this method understates trade's impact. It assumes that, say, low-tech toys imported from China displace high-tech U.S. toys. Since the high-tech toys require less labor to make, relatively few jobs are lost. But Wood argues that economists should base their job-loss estimates on the assumption that the labor-intensive low-tech toys would have been made in the United States.

Moreover, Wood says, developing countries are increasing exports of services in such "low-skill-intensive" areas as shipping, tourism, and computer keypunching. And growing trade stimulates technological progress throughout developed economies, encouraging all firms to reduce unskilled labor. In the developed countries, he believes, trade and trade-induced technological change account for about half of the decline in demand for unskilled labor.

Wood, like most economists, does not favor protectionist policies. Better, he writes, for government to help the unskilled obtain education and training. He also favors government subsidies of various sorts to ease the plight of unskilled workers on both sides of the Atlantic.

### *The Air Bag Peril*

"Are Drivers of Air-Bag Equipped Cars More Aggressive? A Test of the Offsetting Behavior Hypothesis" by Steven Peterson, George Hoffer, and Edward Millner, in *The Journal of Law & Economics* (Oct. 1995), Univ. of Chicago Press, P.O. Box 37005, Chicago, Ill. 60637.

Anybody who doubts that people are strange ought to consider the research on car safety measures. There are conflicting findings, of course, but one line of research strongly suggests that people react to new safety devices, from seat belts to studded snow tires, by driving with greater abandon. In the curiously apt jargon of the economist, they are said to increase their "driving intensity." So much so, apparently, that they may totally

negate the worth of the safety measure.

That is precisely what Peterson, Hoffer, and Millner, all of Virginia Commonwealth University, find in their study of the effects of air bags (which will be required for both front-seat occupants in 1998 autos). They made a list of the car models (excluding station wagons) to which air bags were added between 1989 and '93, then checked insurance industry records of personal injury