Quantifying the Losses from International Trade

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ABSTRACT

This paper studies the welfare losses associated with exposure to international import competition. Empirically, we construct a measure of consumption at the local labor market level in the US, and exploit regional variation in exposure to imports from China in the early 2000s to study the response of consumption to trade shocks. We interpret this evidence within a standard incomplete market model with Ricardian trade across countries. The model features several mechanisms of partial insurance against adverse shocks to comparative advantage: self-insurance, variable labor supply, and migration. We calibrate model to match the observed consumption and labor market response (as measured in David, Dorn, and Hanson (2013)) to Chinese import competition and then quantify how much the losers from trade actually lost.

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