

Escaping the Losses from Trade: The Impact of Heterogeneity and Skill Acquisition

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Abstract :

We study skill acquisition as a margin of adjustment to trade shocks. We exploit variation in import penetration across U.S. regions to identify the effects of trade on skill acquisition decision. We find a deterioration of labor market outcomes for adult workers in U.S. regions more exposed to import competition, which is largely driven by the outcomes of workers without a college education. Furthermore, we provide evidence of increased college enrollment by young individuals in more exposed regions. Yet, this increased enrollment is mainly driven by individuals in wealthier households. Guided by our empirical findings, we develop a quantitative model of international trade with costly skill acquisition decisions and endogenous wealth dynamics. Our model implies that skill acquisition is a key margin of adjustment in determining the long-run distributional welfare consequences of trade.