The high price of losing manufacturing jobs: research

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The loss of U.S. manufacturing jobs is a topic that can provoke heated arguments about globalization. But what do the cold, hard numbers reveal? How has the rise in foreign manufacturing competition actually affected the U.S. economy and its workers?

A new study co-authored by MIT economist David Autor shows that the rapid rise in low-wage manufacturing industries overseas has indeed had a significant impact on the United States. The disappearance of U.S. manufacturing jobs frequently leaves former manufacturing workers unemployed for years, if not permanently, while creating a drag on local economies and raising the amount of taxpayer-borne social insurance necessary to keep workers and their families afloat.

Geographically, the research shows, foreign competition has hurt many U.S. metropolitan areas — not necessarily the ones built around heavy manufacturing in the industrial Midwest, but many areas in the South, the West and the Northeast, which once had abundant manual-labor manufacturing jobs, often involving the production of clothing, footwear, luggage, furniture and other household consumer items. Many of these jobs were held by workers without college degrees, who have since found it hard to gain new employment.

"The effects are very concentrated and very visible locally," says Autor, professor and associate head of MIT's Department of Economics. "People drop out of the labor force, and the data strongly suggest that it takes some people a long time to get back on their feet, if they do at all."

Moreover, Autor notes, when a large manufacturer closes its doors, "it does not simply affect an industry, but affects a whole locality."

In the study, published as a working paper by the National Bureau of Economic Research, Autor, along with economists David Dorn and Gordon Hanson, examined the effect of overseas manufacturing competition on 722 locales across the United States over the last two decades. This is also a research focus of MIT's ongoing study group about manufacturing, Production in the Innovation Economy (PIE); Autor is one of 20 faculty members on the PIE commission.

The findings highlight the complex effects of globalization on the United States.

"Trade tends to create diffuse beneficiaries and a concentration of losers," Autor says. "All of us get slightly cheaper goods, and we're each a couple hundred dollars a year richer for that." But those losing jobs, he notes, are "a lot worse off." For this reason, Autor adds, policymakers need new responses to the loss of manufacturing jobs: "I'm not anti-trade, but it is important to realize that there are reasons why people worry about this issue."

Double trouble: businesses, consumers both spend less when industry leaves

In the paper, Autor, Dorn (of the Center for Monetary and Fiscal Studies in Madrid, Spain) and Hanson (of the University of California at San Diego) specifically study the effects of rising manufacturing competition from China, looking at the years 1990 to 2007. At the start of that period, low-income countries accounted for only about 3 percent of U.S. manufacturing imports; by 2007, that figure had increased to about 12 percent, with China representing 91 percent of the increase.

The types of manufacturing for export that grew most rapidly in China during that time included the production of textiles, clothes, shoes, leather goods, rubber products — and one notable high-tech area, computer assembly. Most of these production activities involve soft materials and hands-on finishing work.

"These are labor-intensive, low-value-added [forms of] production," Autor says. "Certainly the Chinese are moving up the value chain, but basically China has been most active in low-end goods."

In conducting the study, the researchers found more pronounced economic problems in cities most vulnerable to the rise of low-wage Chinese manufacturing; these include San Jose, Calif., Providence, R.I., Manchester, N.H., and a raft of urban areas below the Mason-Dixon line — the leading example being Raleigh, N.C. "The areas that are most exposed to China trade are not the Rust Belt industries," Autor says. "They are places like the South, where manufacturing was rising, not falling, through the 1980s."

All told, as American imports from China grew more than tenfold between 1991 and 2007, roughly a million U.S. workers lost jobs due to increased low-wage competition from China — about a quarter of all U.S. job losses in manufacturing during the time period.

And as the study shows, when businesses shut down, it hurts the local economy because of two related but distinct "spillover effects," as economists say: The shuttered businesses no longer need goods and services from local non-manufacturing firms, and their former workers have less money to spend locally as well.

A city at the 75th percentile of exposure to Chinese manufacturing, compared to one at the 25th percentile, will have roughly a 5 percent decrease in the number of manufacturing jobs and an increase of about

$65 per capita in the amount of social insurance needed, such as unemployment insurance, health care insurance and disability payments.

"People like to think that workers flow freely across sectors, but in reality, they don't," Autor says. At a conservative estimate, that $65 per capita wipes out one-third of the per-capita gains realized by trade with China, in the form of cheaper goods. "Those numbers are really startling," Autor adds.

The study draws on United Nations data on international trade by goods category among developing and developed countries, combined with U.S. economic data from the Census Bureau, the Bureau of Economic Analysis and the Social Security Administration.

New policies for a new era?

In Autor's view, the findings mean the United States needs to improve its policy response to the problem of disappearing jobs. "We do not have a good set of policies at present for helping workers adjust to trade or, for that matter, to any kind of technological change," he says.

For one thing, Autor says, "We could have much better adjustment assistance — programs that are less fragmented, and less stingy." The federal government's Trade Adjustment Assistance (TAA) program provides temporary benefits to Americans who have lost jobs as a result of foreign trade. But as Autor, Dorn and Hanson estimate in the paper, in areas affected by new Chinese manufacturing, the increase in disability payments is a whopping 30 times as great as the increase in TAA benefits.

Therefore, Autor thinks, well-designed job-training programs would help the government's assistance efforts become "directed toward helping people reintegrate into the labor market and acquire skills, rather than helping them exit the labor market."

Still, it will likely take more research to get a better idea of what the post-employment experience is like for most people. To this end, Autor, Dorn and Hanson are conducting a new study that follows laid-off manufacturing workers over time, nationally, to get a fine-grained sense of their needs and potential to be re-employed.

"Trade may raise GDP," Autor says, "but it does make some people worse off. Almost all of us share in the gains. We could readily assist the minority of citizens who bear a disproportionate share of the costs and still be better off in the aggregate."

Provided by Massachusetts Institute of Technology

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