Policies Towards Trade, Outsourcing, and Foreign Investment

Why Was the ‘China Shock’ so Shocking? – And What Does that Mean for Policy?

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Why Was the ‘China Shock’ so Shocking?

Question

• Was something special (or especially bad) about the ‘China Shock’ *per se* – or was something special (or especially vulnerable) about the China-shocked *places*?

• And *what does the answer mean* for public policy / trade policy?
Why Was the ‘China Shock’ so Shocking?

An Enormous Adverse Shock to U.S. Manufacturing Employment
Swift, Measurable, Durable Effects on Workers and Households in Import-Exposed Labor Markets
Concentrated Geographic Impact of China Trade Shock: South Atlantic, South Central, Northeast, Great Lakes

Most-affected areas of the U.S.

Colors show which areas were most affected by China’s rise, based on the increase in Chinese imports per worker in each area from 1990 to 2007. Hovering over each area on the map will show a demographic breakdown of that area, below, and its most-affected industries, at right.

Most-affected industries

Most-affected industries, based on number of areas* Impact per worker†

- Furniture and fixtures
  - 196 areas
  - $44k
- Games, toys, and children’s vehicles
  - 114 areas
  - $488k
- Sporting and athletic goods
  - 106 areas
  - $82k
- Electronic components
  - 87 areas
  - $65k
- Plastics products
  - 84 areas
  - $11k
- Motor-vehicle parts and accessories
  - 79 areas
  - $12k
- Electronic computers
  - 68 areas
  - $207k

Autor, Dom, Hanson & Wall Street Journal, 2016
Adverse Effect of China Trade Shock on Manufacturing Employment Per U.S. Adult by Decade: Begins in 1990s

Effect of an $1000 Per Worker Increase in Imports from China during 1990-2007 on the Change in Manufacturing Employment as a Percentage of the Working age Population.
Effects Much More Severe for Non-College Adults: Jumps in Unemployment & Mostly Nonparticipation

![Chart showing the effect of an $1000 per worker increase in imports from China on the share of population in employment categories. The chart compares College Educated vs. No College Education for Manufacturing, Non-Manufacturing, Unemployment, and Not in Labor Force.]
Male and female earnings fall in shocked CZs, but falls especially steep among lower-wage men.
In affected region, fraction of young adults who are ever married, living with spouse, or living with partner falls.
A Rise in ‘Deaths of Despair’: Shock Leads to Rise in Mortality among Adults Ages 20 – 39 (per 100K Adults)

In affected CZs, a significant increase in mortality among young adults – esp. males
Why Was the ‘China Shock’ so Shocking?

China Shock Occurred Against Backdrop of Falling Regional Convergence
Non-Persistence of Unemployment in mid 70’s – mid 80’s: State Unemployment Rates, 1986 vs 1976

Figure 3: Changes in State Unemployment Rates 1976-1986
But Look at the Next Three Decades: Persistence

1986 vs. 1996

2006 vs. 2016

1996 vs. 2006

1986 vs. 2016

Russ & Shambaugh 2019
Why Was the ‘China Shock’ so Shocking?

Geographic Mobility of U.S. Residents Has Been Falling for Three Decades – And it’s Not Clear Why
Share of the U.S. Population *Making Interstate Moves* Fell From 20% in 1985 to 11% in 2017

Urban Areas Have Become Much More Educated Since 1980

Urban-Rural College Degree Gap

- **1950**: 5 pct points
- **1970**: 5 pct points
- **1980**: 8 pct points
- **1990**: 13 pct points
- **2000**: 17 pct points
- **2015**: 20 pct points

As the Skill Premium Rose, Urban Areas Became Vastly More Educated
Urban Wage Premium **Collapsed for Non-College Workers** after 1990, **Rose for College Workers**

Declining Urban Wage Premium among Non-College Workers

Log Real Earnings of Working-Age Adults ($2015)

Log hourly wage

Log Population Density (1950)

○ Some College or Greater  △ High School or Less
Meanwhile, **Manufacturing Moved Out of Urban Labor Markets** during the Post-War Decades


![Graph showing the relationship between manufacturing employment to population and CZ population density from 1950 to 2015.](image)
Why Was the ‘China Shock’ so Shocking?

Future ‘China-Shocked’ Local Labor Markets Were Vulnerable
Percentiles of the ‘China Shock’ – CZ Level Increase in Imports per Working-Age Adult between 1990 and 2007

CZ Level China Shock 1990 - 2007 in $1,000s/Adult

by CZ Exposure Percentile in 1990
Manufacturing Was **Moving Into** Future ‘China Shocked’ CZs During the 1970s and 1980s
‘China-Shocked’ Labor Markets were Always Intensive in Non-College Adults, 1950 to Present

Non-College Share of Adults vs. China Shock Exposure 1990-2007
Employment Rates Differentially Rose in To-Be China-Shocked Labor Markets during the 1970s and 1980s
Rise Before the Fall: Despite Growing U.S. Skill Premium, Real Wages Rose in To-Be ‘China-Shocked’ CZs in the 1980s

Decadal Change in Mean Log Hourly Wage vs. China Shock Exposure 1990-2007

![Graph showing decadal change in mean log hourly wage vs. China shock exposure from 1950-1970 to 2007-2015.](image)
Why Was the ‘China Shock’ so Shocking?

Was the China Shock so Bad, or the Shocked Places so Vulnerable?

Both – of Course!
Policies Towards Trade, Outsourcing, and Foreign Investment

1. U.S. labor market adjustment problems **precede and supersede** our trade adjustment problems
   - The China Shock laid these issues bare

2. China Shock afflicted the places that had fewest ‘outside options’
   - These same places experienced **positive pre-China shock** in 70s and 80s
   - But the economic tide was running against them
Policies Towards Trade, Outsourcing, and Foreign Investment

1. U.S. Trade Adjustment Assistance program (TAA) works better than we realized (Hyman ‘18)
   • But it’s small, hard to access, **insures only one type of shock**
   • **Why** predicate labor market assistance on “who is to blame”?

2. In retrospect, **gradualism would have been better trade policy** at the time of PNTR + China’s WTO accession

3. But focusing on ‘trade shock’ now is **fighting the last war**
   • Trade policy should mostly **not** be about protection
   • Should be about innovation, investment, skills, adjustment

4. The ‘AI and Robot’ shock will **differ greatly** from the China shock: **less traumatic** but will require different policies