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Summary
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Import Competition and the Great U.S. Employment Sag of the 2000s

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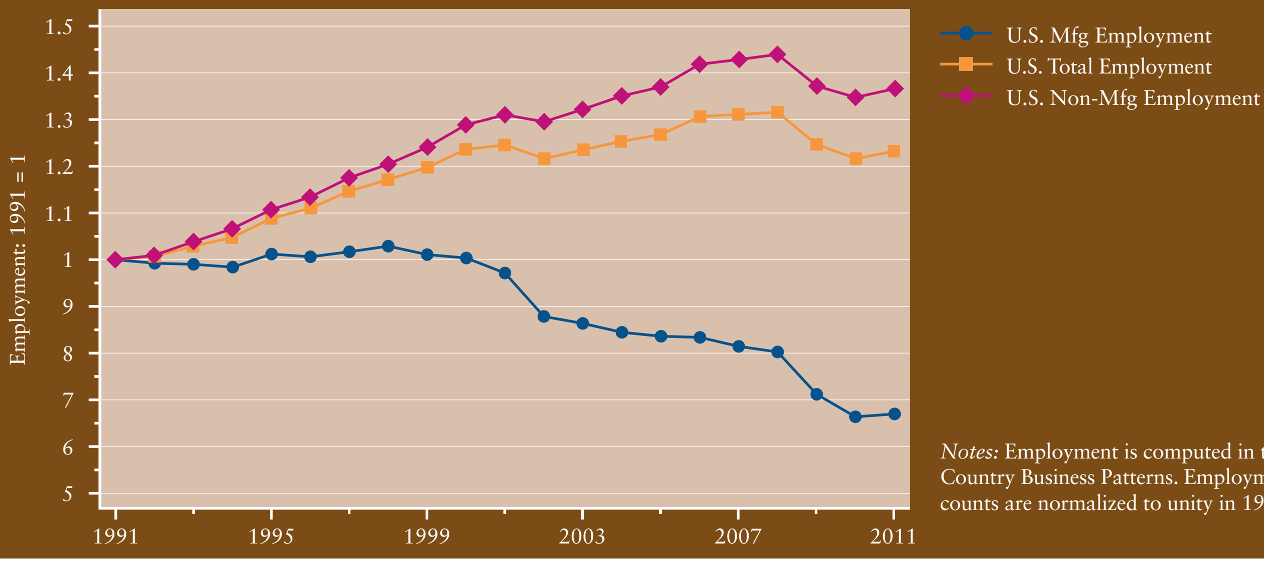
Even before the Great Recession, U.S. employment growth was unimpressive. Between 2000 and 2007, the economy gave back the considerable gains in employment rates it had achieved during the 1990s, with a historic contraction in manufacturing being a prime contributor to the slump. The U.S. employment «sag» of the 2000s is widely recognized but poorly understood. In this paper, the authors explore the impact of the rising import competition from China on U.S. employment growth. They find that the dramatic increase in U.S. imports from China, which accelerated after 2000, was a major force behind both recent reductions in U.S. manufacturing employment and – through input-output linkages and other general equilibrium effects – weak overall U.S. job growth.

The authors conduct an industry-level analysis to quantify the employment effects of import competition in differentially exposed industries. By augmenting this setup with data from the U.S. input-output table for 1992, they are also able to estimate the employment impacts of upstream and downstream import exposure for both manufacturing and non-manufacturing industries. This approach thus allows to capture both the direct effect of exposure to Chinese import competition at the industry level, as well as the effects of indirect exposure through supply chain linkages. As a second empirical strategy, the authors analyze local labor markets whose industry composition is differentially exposed to trade. This strategy allows capturing the employment effects of local general equilibrium channels that could not be observed in an industry-level analysis.

Trade pressure appears to have contributed to the U.S. employment sag not just before, but also during the Great Recession.

The industry-level analysis finds large differential employment declines both in industries that directly compete with Chinese imports, and in industries whose customer industries are directly exposed, while the import exposure of an industry's suppliers has unstable and imprecisely measured effects. At the level of local labor markets, there are sizable job losses in import-exposed industries, but few if any offsetting job gains in non-exposed industries. This pattern is consistent with substantial job loss due to local aggregate demand spillovers, which offset positive employment relocation effects within local labor markets. These results provide first steps in quantifying the employment impact of increasing import competition on the U.S. labor market.

Figure 1:
Changes in U.S. Manufacturing and Non-Manufacturing Employment



Notes: Employment is computed in the Country Business Patterns. Employment counts are normalized to unity in 1991.

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