

Trade and Manufacturing Employment: No Real Disagreement

Paul Krugman 12/4/16

America used to be a nation where a lot of people worked in manufacturing. Today, we basically work in office parks and services. But people aren't reconciled to the change; and ☹️ (I'm using that symbol for the man who will use the Oval Office to turn us into a banana republic) is promising to bring the jobs back by punishing companies who move jobs abroad.

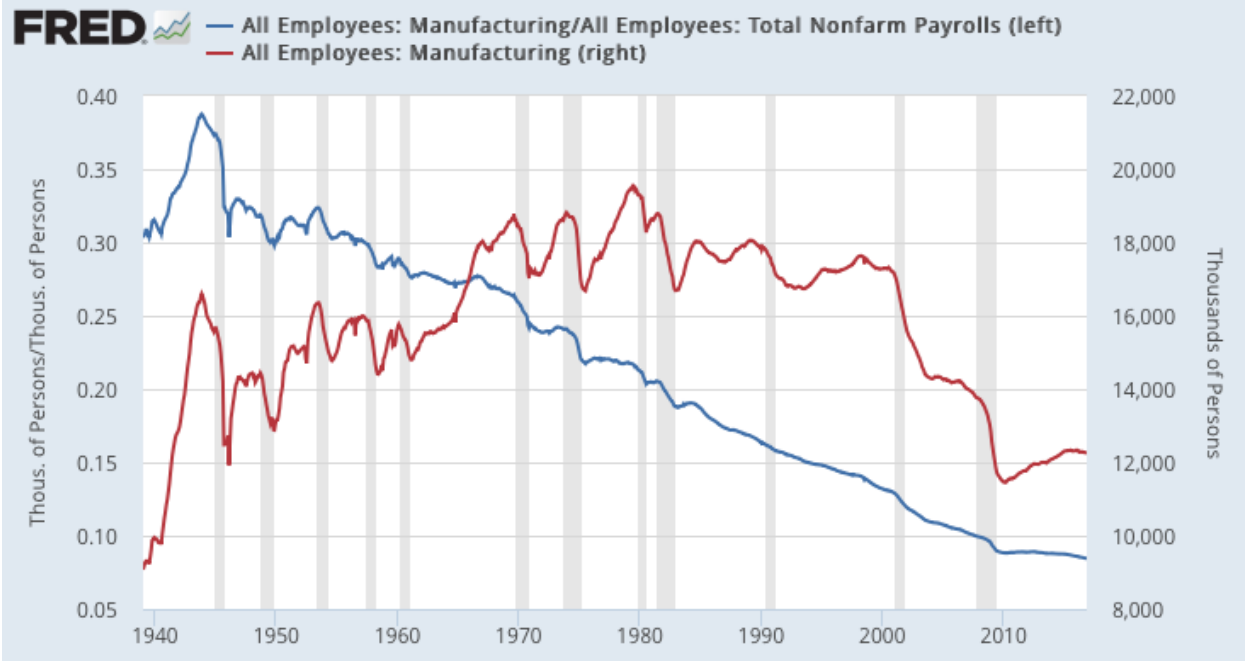
Most economists will tell you that this is completely unrealistic. But in conversations with various fairly sophisticated people, I've realized that there's a widespread impression of major disagreement within the field. The notion – fed, it has to be said, by some misleading statements by economists themselves – seems to be that new work on the impacts of trade refutes the notion that the decline of manufacturing is basically about productivity.

So I've been sitting down with recent work, and realized that there's actually very little disagreement about either the facts or the counterfactuals – that is, what might have happened with different trade policies. What looks like disagreement is actually a difference in the questions being asked; once you take that into account, there's more or less a consensus about the historical record.

Basically, it comes down to which of these two questions you're trying to answer:

1. How much of a role did trade play in the long-term decline in the manufacturing *share* of total employment, which fell from around a quarter of the work force in 1970 to 9 percent in 2015? The answer is, something, but not much.
2. How much of a role did trade play in the *absolute* decline in manufacturing employment, down about 5 million since 2000? Here the role is bigger, basically because you're comparing the same effect with a much smaller denominator; even so, trade is less than half the story, but by no means trivial.

Start with a chart showing two versions of the decline of manufacturing:



The blue line, left scale, shows the manufacturing share of the total, which has been falling steadily since the 1950s. The red line, right scale, shows absolute employment, which was roughly stable from 1970 to 2000, because it was a smaller share of a larger total, but began a major decline thereafter.

So what's the overall role of trade in all of this? Via EPI [<http://www.epi.org/publication/manufacturing-job-loss-trade-not-productivity-is-the-culprit/>], below is the manufacturing trade deficit as a share of GDP, around 3 percent in recent years, roughly twice what it was in the mid-1990s. That is a subtraction from the demand for U.S.-produced manufactured goods, although not all of it represents a subtraction from value-added – some of it comes out of service inputs instead. Absent that trade deficit, U.S. manufacturing would probably be about 2 percent of GDP higher, and the manufacturing share of employment would also be about 2 percentage points higher.

Or to put it another way, absent the trade deficit manufacturing would be maybe a fifth bigger than it is – which is actually what EPI estimates too (Exhibit D in the linked paper). That wouldn't make much difference to the long-run downward trend, but looms larger relative to the absolute decline since 2000.



But what about the now-famous Autor-Dorn-Hanson paper on the “China shock”? <http://www.ddorn.net/papers/Autor-Dorn-Hanson-ChinaShock.pdf> It’s actually consistent with these numbers. Autor et al only estimate the effects of the, um, China shock, which they suggest led to the loss of 985,000 manufacturing jobs between 1999 and 2011. That’s less than a fifth of the absolute loss of manufacturing jobs over that period, and a quite small share of the long-term manufacturing decline.

I’m not saying that the effects were trivial: Autor and co-Autors show that the adverse effects on regional economies were large and long-lasting. But there’s no contradiction between that result and the general assertion that America’s shift away from manufacturing doesn’t have much to do with trade, and even less to do with trade policy.