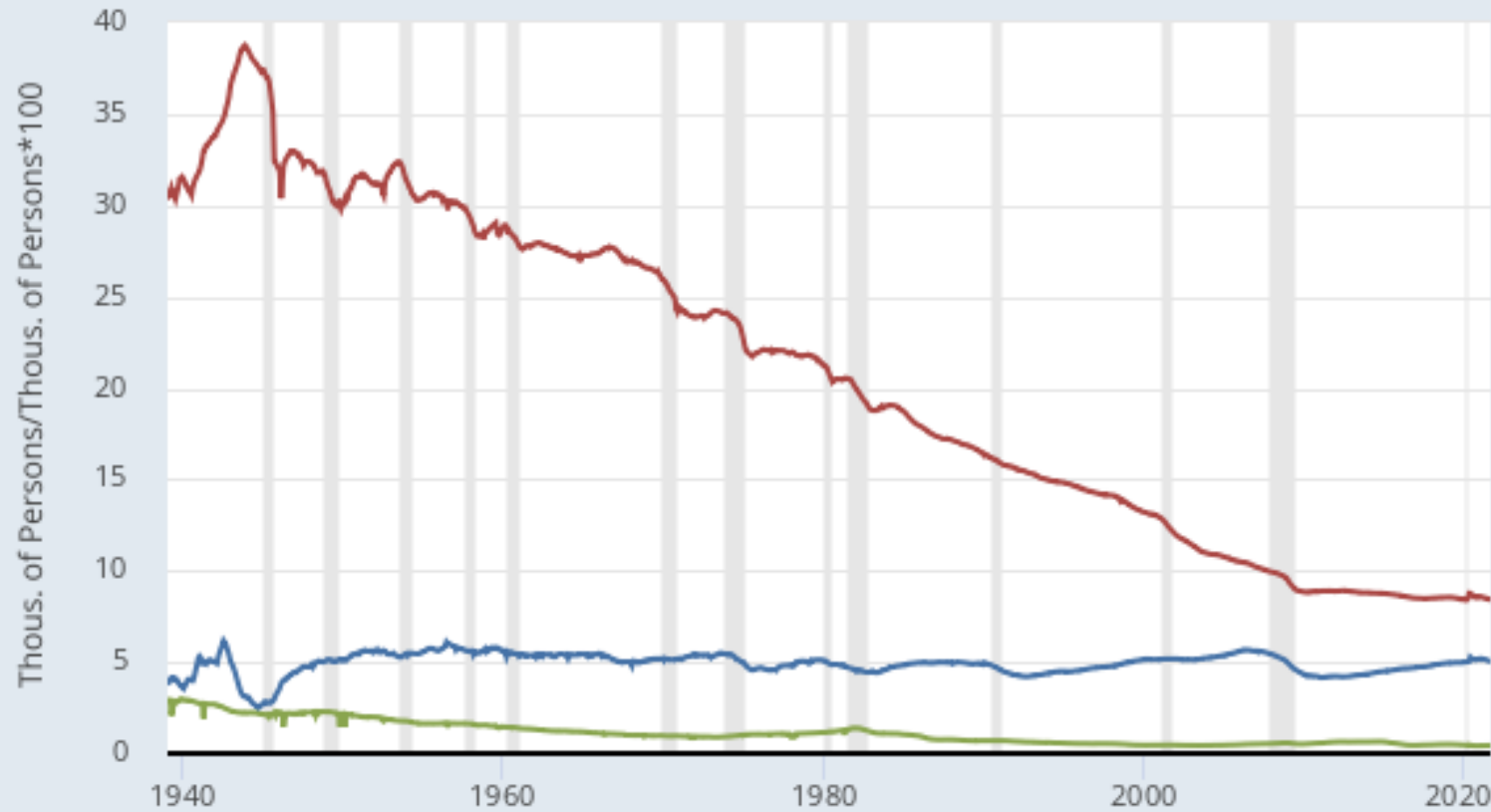


Comments on:
On the Persistence of the China Shock

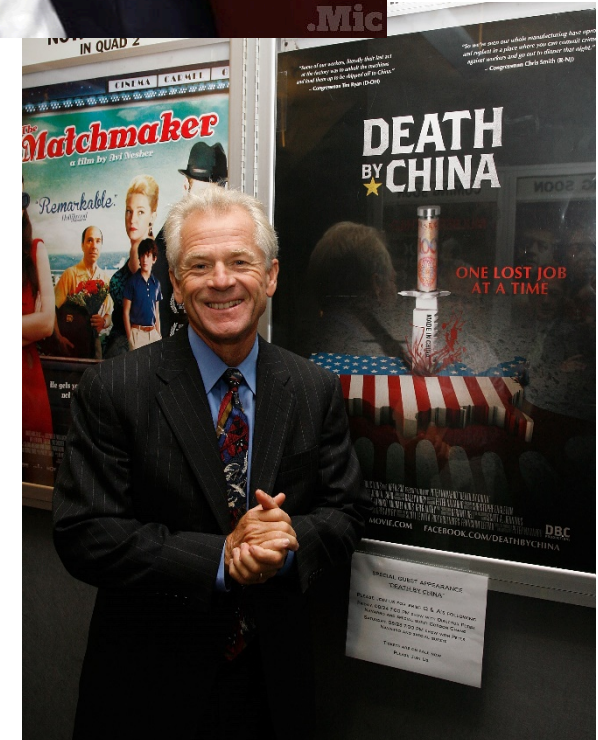
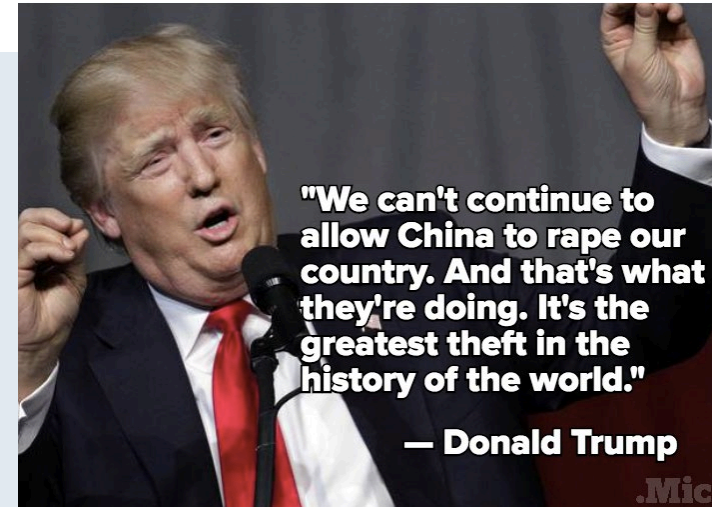
Marianne Bertrand
Booth School of Business

FRED.

- All Employees, Construction/All Employees, Total Nonfarm*100
- All Employees, Manufacturing/All Employees, Total Nonfarm*100
- All Employees, Mining and Logging/All Employees, Total Nonfarm*100

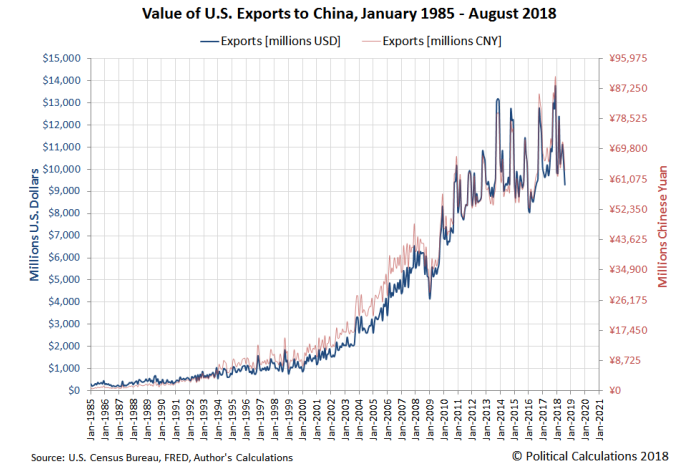


Source: U.S. Bureau of Labor Statistics



Comment #1: moving beyond focus on import penetration

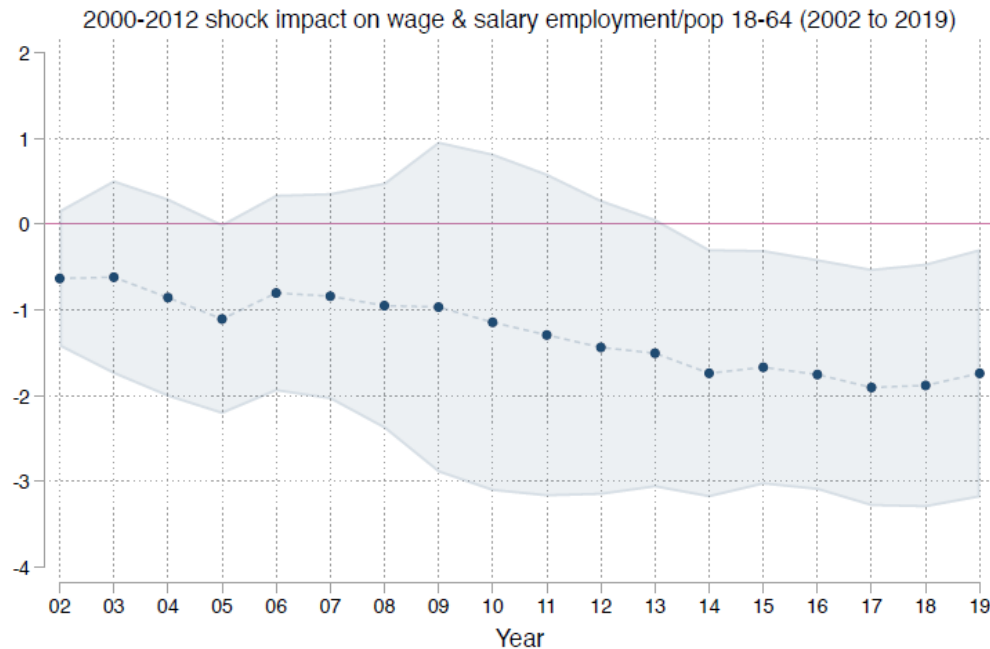
- China's entry into WTO also meant increased exports to China
 - Even if small relative to import growth, why not include in default specification?
 - Similar IV approach (e.g. cars, machine tools, etc)
- Supply chain perspective
 - Downstream and upstream channels
 - Wang et al (2018) suggests employment benefits from being able to use imported intermediate goods outweigh negative effects of direct import competition effect and of being upstream of US firms that compete with China.
- Off-shorability of jobs and routine tasks used as controls → but why not as instrument?
 - eg. Off-shorability / routine *post 2002



Comment #2: display pre-trend (I)

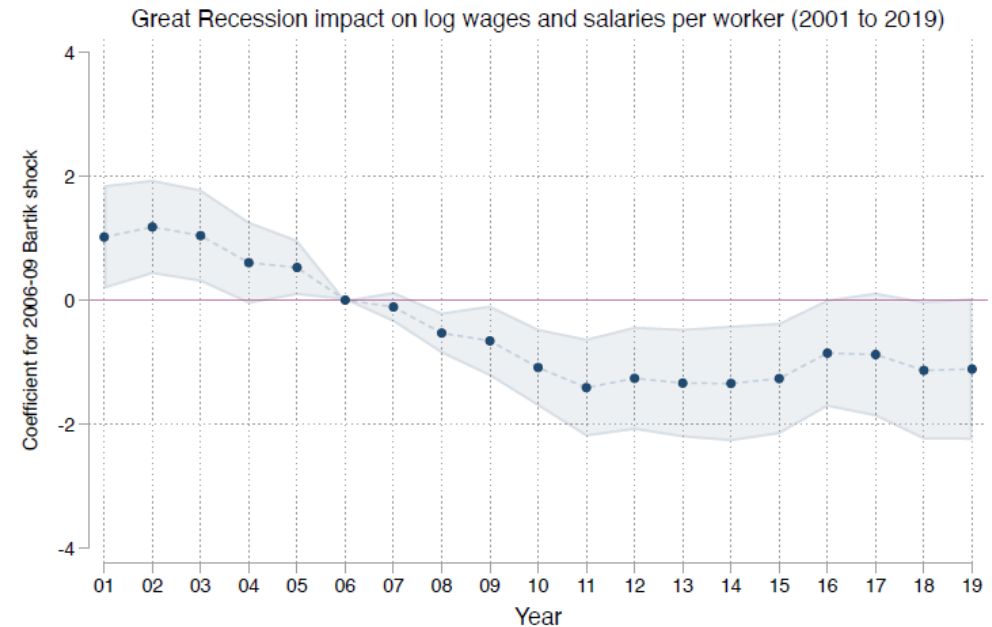
China shock

(c) Total wage & salary employment/Working-age pop.



Much prefer: Great recession

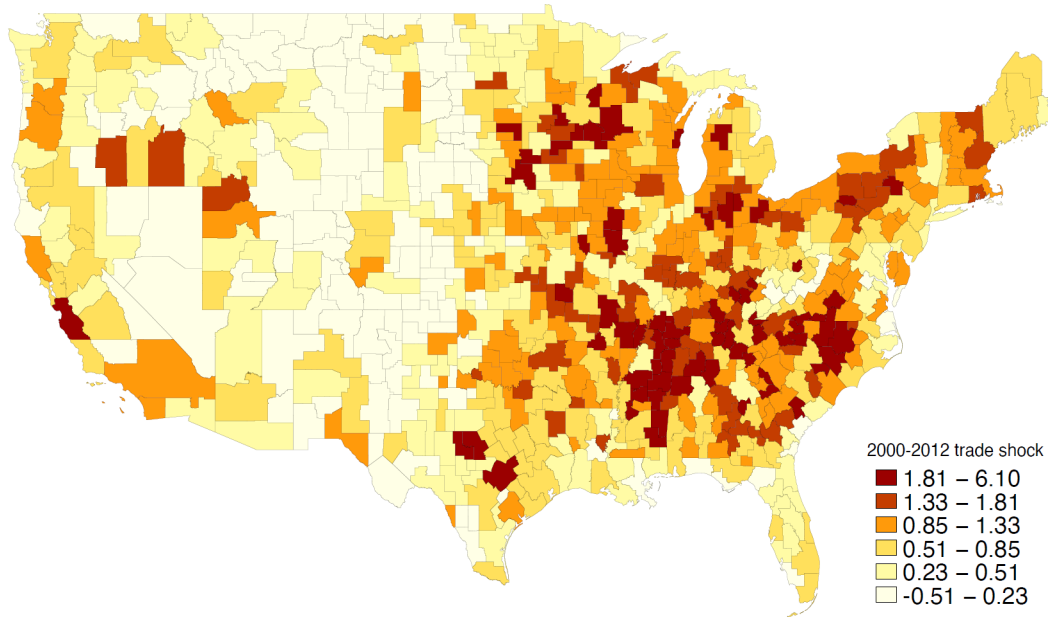
(b) Log labor compensation per worker



(Appendix Figures display pre-trend, but for the 1990s China import)

Comment #2: display pre-trends

Figure 4: Chinese Import Penetration (2000-2012) in U.S. Commuting Zones

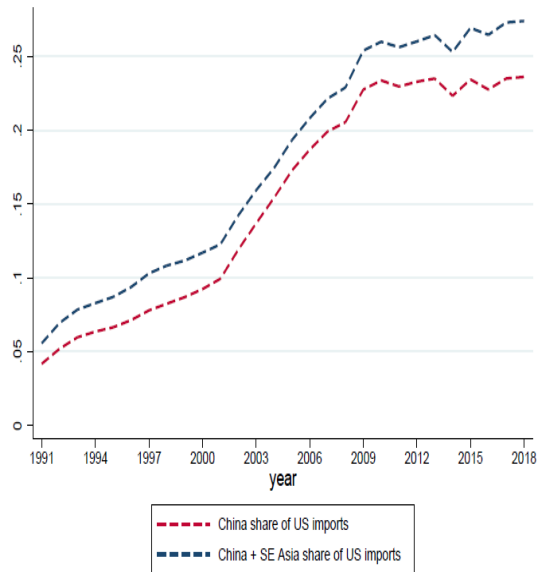


- Pre-trends particularly important given that this is (of course!) far from a random shock (Figure 4)
- Rich set of controls:
 - time trends for U.S. Census Divisions
 - start-of-period CZ-level covariates: manufacturing share of employment, specialization in occupations according to their routine-task intensity and offshorability; fractions of foreign-born, non-whites and college educated, fraction of working-age women who are employed, and population shares of residents ages 0 to 17, 18 to 39, and 40 to 64.
- But is it the right list? Eg:
 - Urban/rural; city size
 - Male vs female employment
 - Secular decline in less educated male labor force participation
 - Housing cost; home ownership rate
- Data driven double-lasso approach?

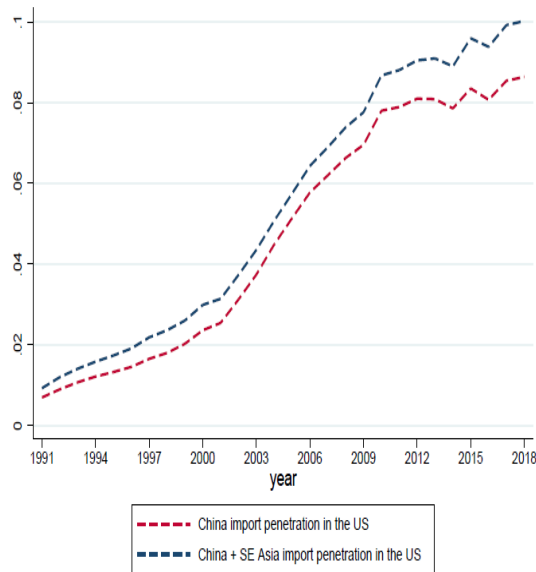
Comment #3: persistence of past shock or never-ending shock?

Figure 3: U.S. Manufacturing Imports from China and Southeast Asia

(a) Shares of U.S. Imports



(b) Import Penetration in the U.S. Market



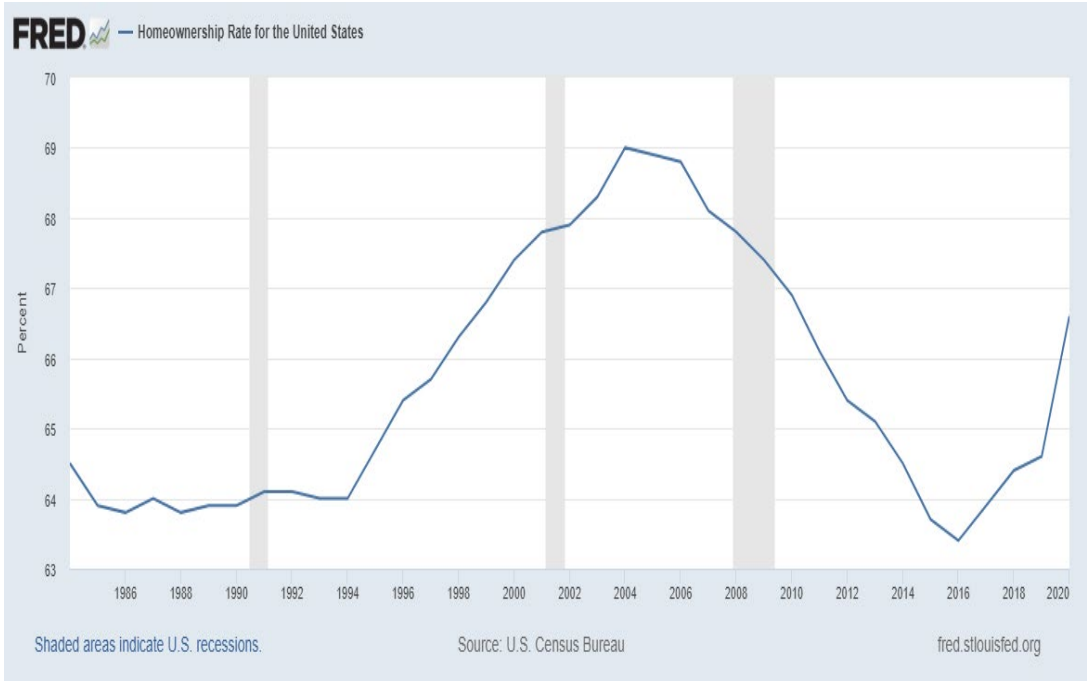
- Increase in import penetration in 2010s in line with 1990s' increase.
 - Especially when taking into account possible offshoring of production by China to other low-wage SE Asian countries.
- High correlation between the 1990s shock and the 2000s shock → hard to empirically separate them
- Is it the same for the 2010s shock?

Was this inevitable?

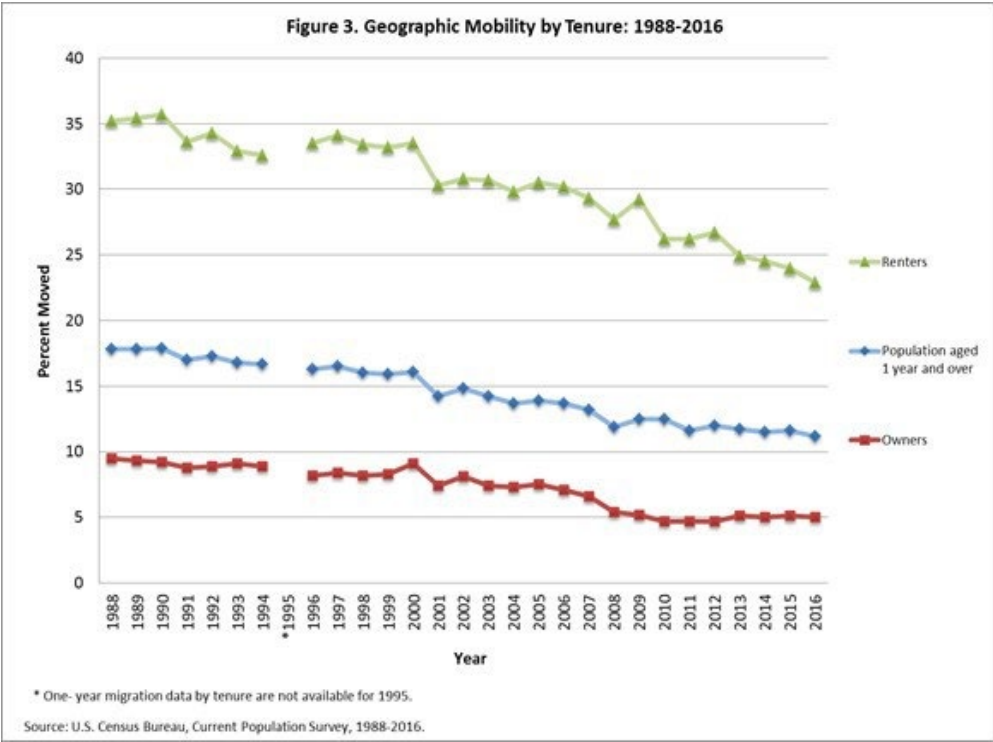
- Yes
 - Shock was sudden and large (because China is large); “adjustment process in the labor market is too slow and sclerotic” to deal with such large shocks
 - Beware of another big shock like that (e.g. cap-and-trade; India when it suddenly, finally, gets its act together)
- No
 - China shock did not happen in a vacuum: overlap with the Great Recession
 - Other developed economies did not experience the same employment losses (short-term and hence likely longer-term as well):
 - E.g. Germany

China shock did not happen in a vacuum (I): housing

Homeownership rates

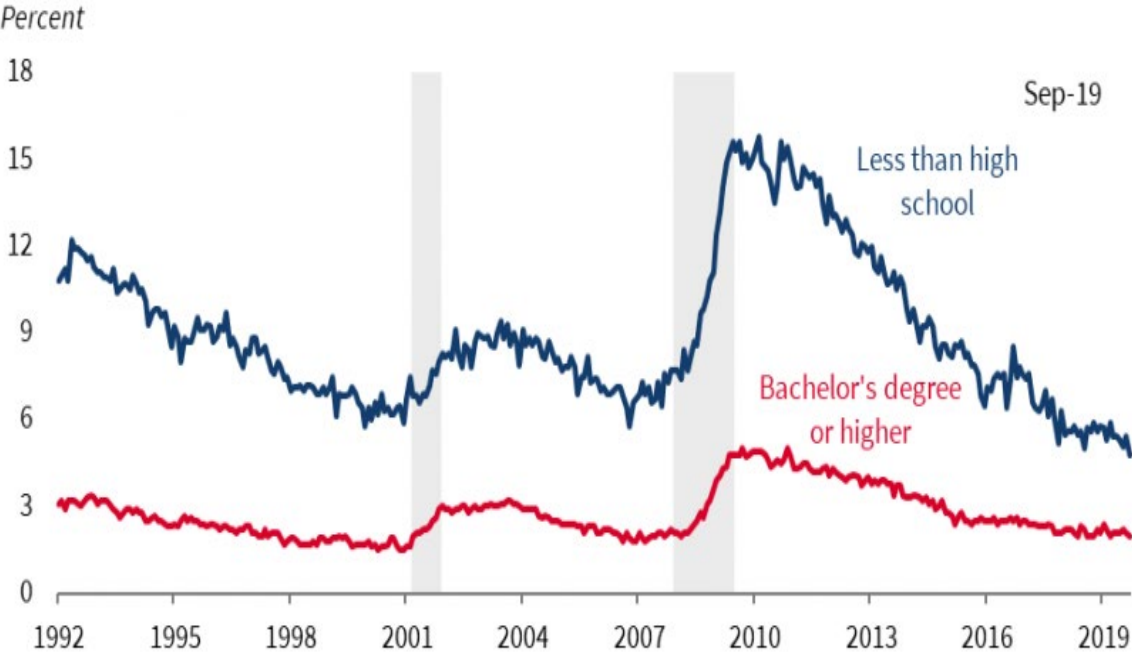


Geographic mobility by tenure type



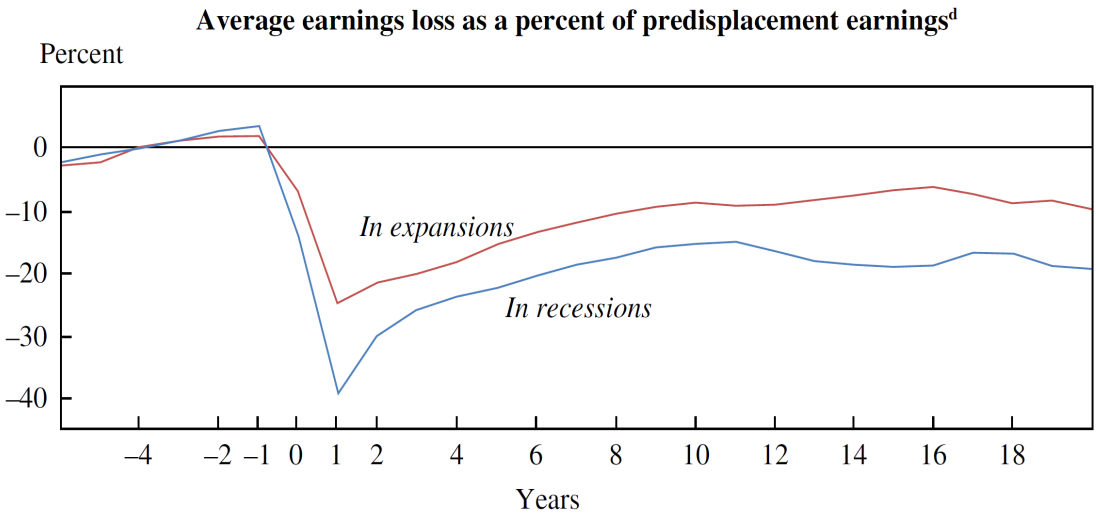
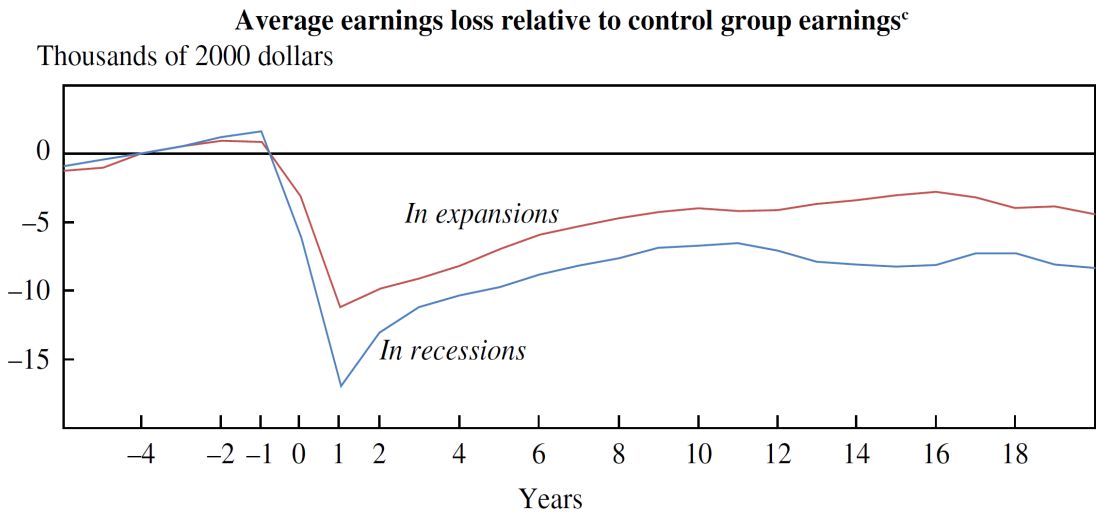
China shock did not happen in a vacuum (II): unemployment/moving where?

Figure 1. Unemployment Rates by Educational Attainment, 1992–2019



Source: Bureau of Labor Statistics.
Note: Shading denotes a recession.

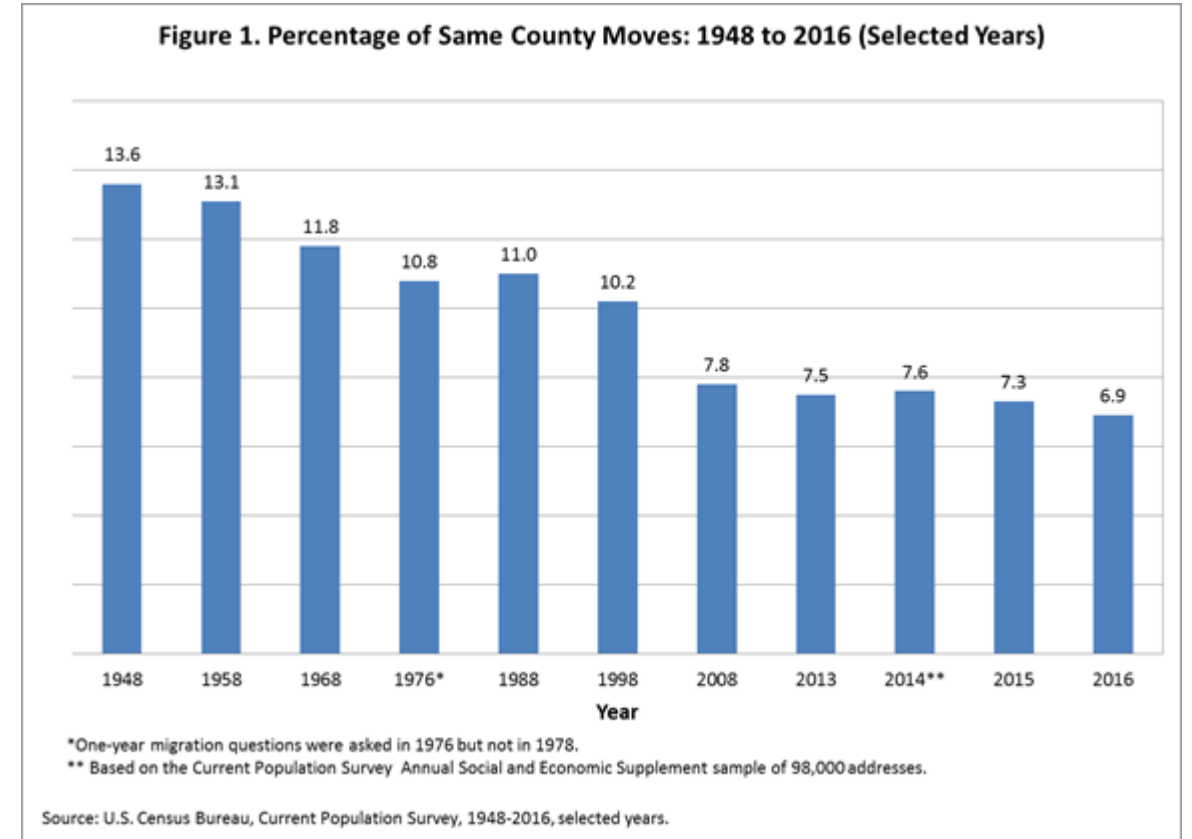
(Low-skilled) construction jobs hit particularly hard



Source: Davis and von Wachter (2011)

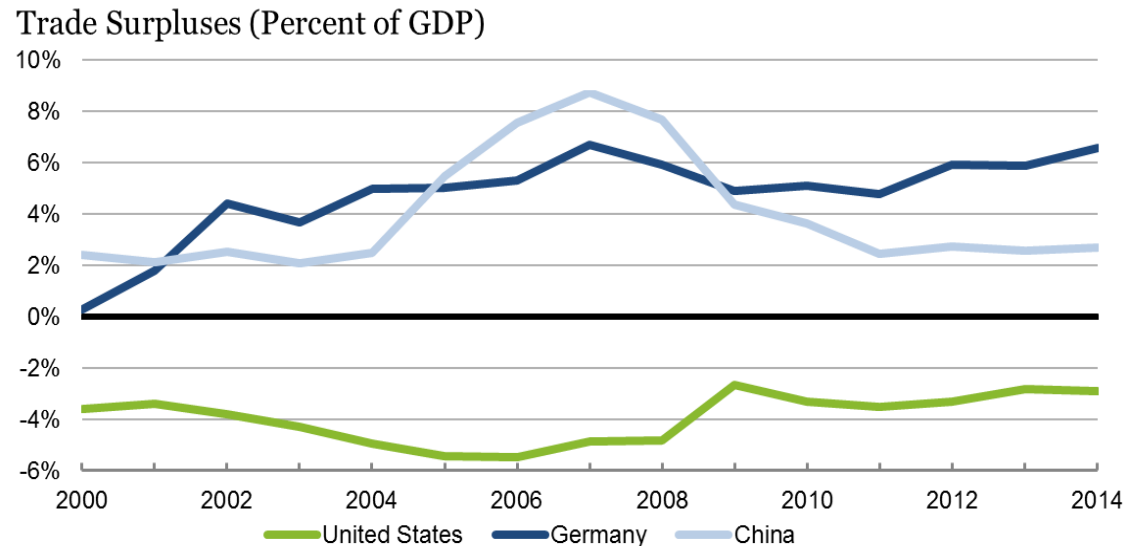
Additional barriers to mobility

- Historically, adjustment to shocks happen via migration – but Americans have become less mobile...
 - Wozniak and co-authors
- Some contributing factors discussed in prior research:
 - Costs: higher homeownership rates (but renters have also become less mobile), aging population, rising share of dual-earner households
 - Benefits: higher housing costs in cities (zoning regulation), rise in occupational licensing
- Other factors that might be particularly relevant to population exposed to China shock:
 - Family/friends safety net as a substitute for a lacking public safety net
 - Negative selection
 - Who is *still* employed in low-wage manufacturing factory towns in the early 2000s?



(Longer moves between counties declined from 6.4 percent in 1948 to just 3.9 percent by 2016)

Was this inevitable? Germany's experience



Sources: US Bureau of Economic Analysis, Deutsche Bundesbank, China National Bureau of Statistics, China State Administration of Foreign Exchange

BROOKINGS

- Little evidence of overall negative effect of the China shock on the German labor market (Dauth et al, 2014)
- Gains for workers in highly export-exposed industries (Dauth et al, 2021)
 - “large shock” argument cuts both ways; US also produces cars and machine tools
- Negative effects on workers in more import-exposed largely absent in Germany
- Why such different experiences?

Was this inevitable? Germany's experience

- Some possible factors behind the US/Germany contrast (see Dustman, 2021):
 - 1) Germany better integrated in global supply chains prior to China shock/US more closed economy until China shock
 - 2) German industry responded to trade shocks via region- and industry-wide (downward-adjustment) wage agreements for firms that were under particular pressure, negotiated between employers and unions/work councils
 - Surely US labor markets more flexible than Germany
 - Rigid labor markets such as in Italy and Portugal also experience large employment losses in import-exposed areas
 - But how much lower can unskilled wages go before people decide work is no longer “worth” it?
 - vs. early retirements, disability/broader decline in working-age male labor force participation

Was this inevitable? Germany's experience

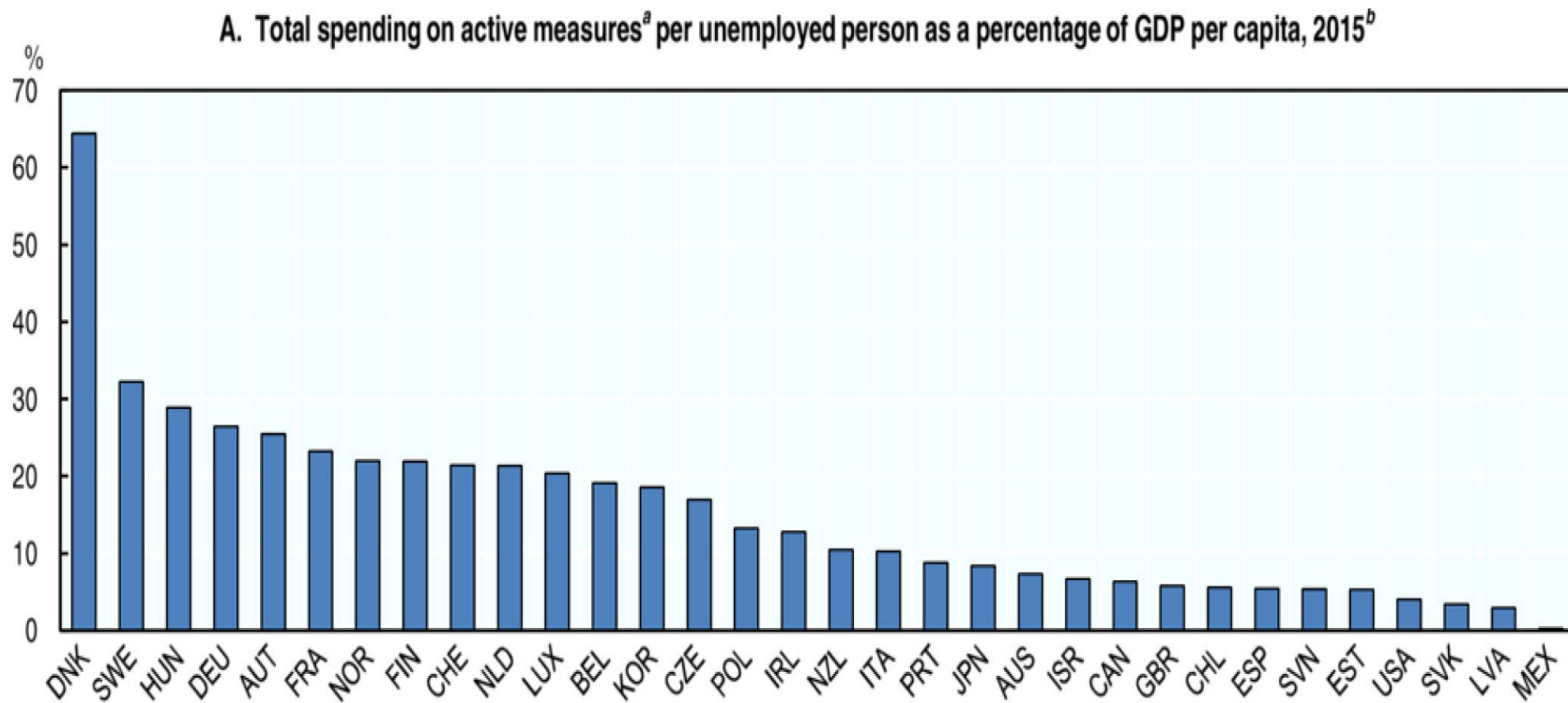
- Some possible factors for the US/Germany contrast:

3) German *firms'* greater willingness and ability to retrain workers ensured a more resilient labor market:

- Willingness: corporate governance/stakeholder vs shareholder capitalism/longer vs shorter-term profit maximization
 - Work councils, co-determination
 - Family firms, locally owned firms
 - vs. anecdotally, original influx in Chinese furniture imports *initiated* by NC industry's own businesses (Mullin, 2020)
- Ability: retraining effects largest for German workers at firms with large apprenticeship programs (and strong union representation) (Battisti et al, 2019)
 - vs. US firms' more limited investment in workers skills, apprenticeship programs, private-public partnerships in vocational education
 - Eg: US furniture manufacturers experiencing a shortage of skilled labor as industry has moved towards greater customization

Was this inevitable? Germany's experience

4) German government's greater spending on active labor market policies for those that end up displaced→



- Across OECD countries in 2005, spending on active labor market policies averaged only .67% of GDP, from .13% in the United States and Korea to 1.74% in Denmark

But what about the Trade Adjustment Assistance (TAA) program?

- True that workers displaced by trade are one group that receives disproportionate support
 - The politics of TAA: TAA as a “carrot” to win enough political support for new trade deals
 - No need for such carrot when it comes to workers displaced by technological change
- “Carrot” creates commitment issues:
 - Losing support after trade deals have come into effect
- 2002 TAA capped training funds at \$220 million/year:
 - Expanded to \$575M in 2009 as part of Recovery Act

Year	Workers Covered by Petitions	New Training Participants
2003	166,335	43,672
2004	104,127	50,929
2005	112,545	38,207
2006	123,348	37,426
2007	132,336	49,339
2008	150,899	37,752
Total	789,590	257,325

Source: Department of Labor, Employment and Training Administration.

- \$220M/~130,000 trade-displaced workers is less than \$2,000 per worker in 2007~=\$1,700/worker
- Many other issues with TAA, including: who is eligible (just manufacturing vs. broader set of jobs impacted, administrative/informational barrier to applications, better linking training content to labor demand, etc...

More than we can learn from heterogeneity in adjustment across CZs

- Moving beyond Germany and the cross-country evidence, there is more to do to understand the heterogeneity across CZs in the map below:
 - Current focus is on cross-CZ variation in high-educated share, and industry HHI
 - What other factors may have play an important role in making some import-exposed CZs more resilient?
 - Firm ownership structures, supply of quality vocational education (such as via strong private-public partnerships), transportation infrastructure, etc.
 - Such analysis would also benefit from considering broader set of long-term outcomes:
 - Generational impacts (such as educational achievements)

Figure 4: Chinese Import Penetration (2000-2012) in U.S. Commuting Zones

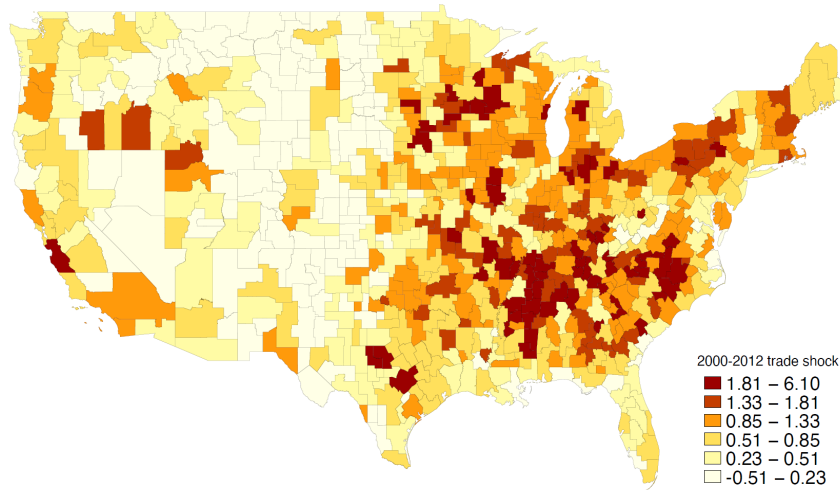


Figure 6: Implied Impact of Import Competition on Employment-Population over 2001 to 2019

