People Are Giving Up Instead Of Moving To Opportunity -- And That's Not Good

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The United States has long been known as a place of opportunity. Most of the people in the U.S. came here in search of a better life or are descendants of people who did. And once they arrived, many of them kept moving. Stories of the California gold rush, the Dust Bowl, the Great Migration north, the "Hillbilly Highway" and the proclamation "Go West, young man" all invoke images of tough men and women packing up their families and belongings and setting out into the unknown in search of the good life.

But geographic mobility has been declining in America for decades, and new research shows that over the last 25 years—and contrary to our stories of the past—people have rarely moved in response to local economic downturns.

Economists David Autor, David Dorn, and Gordon Hanson have published two papers that analyze a recent economic shock—increased imports from China—which negatively impacted certain areas. They examined how increased import competition affected employment, wages, marriage rates, fertility and child poverty in different areas of the U.S.

They find that increased imports from China due to increases in productivity there, along with a reduction in trade barriers, resulted in a decrease of 1.5 million manufacturing jobs in the U.S. from 1990 to 2007, particularly in regions more exposed to Chinese import competition.

Interestingly, the negative effects were not limited to industries directly competing with China: Non-manufacturing employment for people without a college degree also declined, largely due to local declines in overall purchasing power caused by less employment and lower wages.

In the second paper, Autor et al. find that both marriage rates and fertility declined in areas more exposed to import competition, and that the proportion of children who lived in poverty or in a household headed by one adult increased.

The decline in marriage rates was due to male earnings declining relative to female earnings, which decreased the attractiveness of males as partners. The ratio of males to females also declined, partially driven by an increase in male mortality rates due to drug and alcohol overdose, liver damage and poor diet. This is evidence that the costs of a decline in economic opportunity are greater than the just job losses and lower wages.

The papers by Autor et al. paint a pretty bleak picture of life in areas more exposed to Chinese imports. More economic hardship—fewer jobs and lower wages—seems to be harming people's health, especially that of less educated people. In light of all this, it's reasonable to think that people must be leaving these areas for greener pastures.

But they're not. Despite the economic decline, Autor et al. find little evidence that people are moving out. Other researchers have also found that people rarely move to areas with more economic opportunity after a negative economic shock. In one recent study, economists Ryan Greenaway-McGrevy and Kyle Hood examine data from 1990 to 2012 and find that local job creation, not out-migration, is the main driver of local economic recovery in the U.S., but that even partial recovery can take up to 20 years, or approximately an entire generation.

So what has happened to the people living in these areas? If employment opportunities and wages declined but hardly anyone left, many of them must be relying on private charity and/or government assistance for subsistence, and Autor et al. do find evidence of this. Exposure to Chinese imports had a negative effect on labor force participation and a positive effect on the use of government assistance such as Social Security Disability Insurance (SSDI), federal income assistance and food stamps.

Autor et al. note that "One implication of these results is that the federally funded transfer programs, such as SSDI, implicitly insure U.S. workers against trade-related employment shocks." Moving is costly, in both actual dollars and what economists call social capital, so it's not surprising that many people choose to stay in place and remain unemployed when government benefits enable it, rather than moving to a place with a better economy.

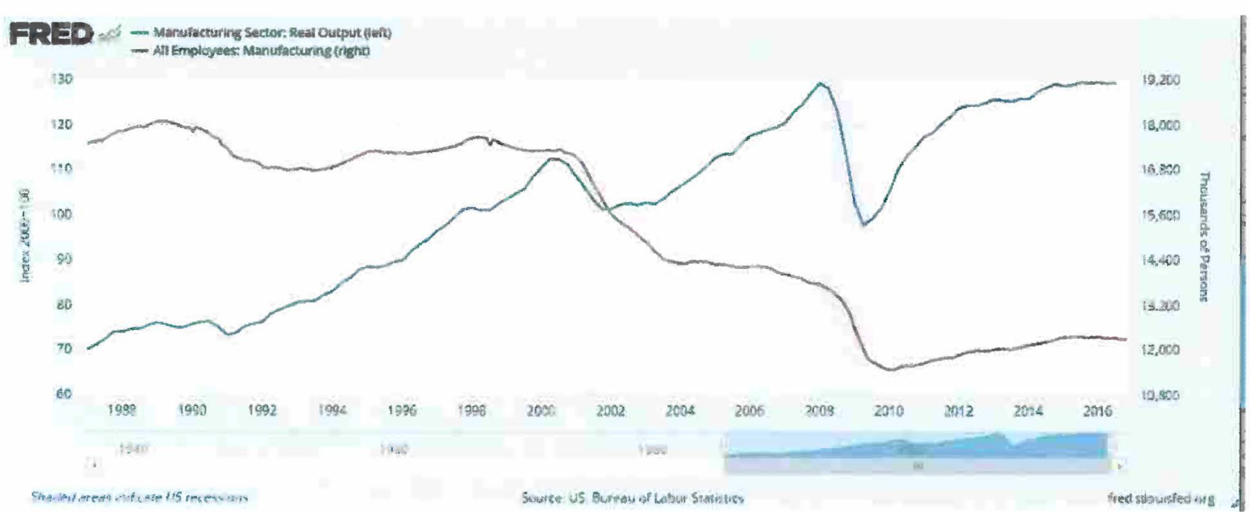
People already worried about the adverse effects of international trade will find little comfort in these studies. Those who support free trade, myself included, should also be troubled by the findings. That being said, clamping down on international trade won't alleviate these issues.

These papers reveal some of the distributional costs of international trade—low-skilled workers in some areas of the country are adversely impacted by freer trade—but they don't prove that freer trade does more harm than good because they don't account for the benefits of trade. The reason we import goods from China is because those goods are produced for a lower cost. This saves consumers money, especially low income consumers, and improves our quality of life.

Along with imports, exports to China have also increased: Autor et al. report that exports increased from $10 billion in 1992 to $57 billion in 2007. Thousands of Americans who work for firms that sell their products and services to Chinese consumers will be negatively impacted by tariffs and other policies that hinder international trade.

Moreover, hundreds of millions of people around the world have been lifted out of dire poverty due to the spread of capitalism and increased international trade. Wages in China and other countries have increased, improving lives in the process, and freer trade is a big reason for that. These higher labor costs have also changed the calculus of off-shoring: There is evidence that companies have started creating jobs in the U.S. that would have gone overseas in the past.

We must also remember that ultimately it is not international trade per se that causes some jobs to be destroyed, but progress. Advances in transportation drastically reduced the cost of overseas shipping, making trade with faraway places like China less costly. Other advances in technology have drastically increased the productivity of the average manufacturing worker, which means we need less workers to produce more stuff, as shown in the figure below. U.S. manufacturing output (blue line) is higher than ever despite fewer workers (red line).



source: Federal Reserve Economic Data (FRED) https://fred.stlouisfed.org/

Unless we to stop this progress jobs will always be destroyed and created, and this process will harm some and benefit others in the short run. As my colleague Don Boudreaux recently explained:

"...*any* change in the pattern of consumer spending destroys some jobs today and creates others. Improvements in the market for used cars, including the advent of Carmax – as well as innovations that extend the life of automobiles – reduce the demand today for new cars, thus destroying some jobs for U.S. autoworkers and new-car salespeople. Increased usage of e-readers destroys some jobs in paper mills, book binderies, and bookstores. Greater awareness of the health consequences of smoking and heavy drinking have destroyed some jobs on tobacco farms, in cigarette factories, and in distilleries. Improved techniques that make long-combination trucking safe and efficient have destroyed some jobs for truckers and railway workers."

Increased international trade is both caused by and contributes to progress, so reducing it means reducing the rate of progress.

Instead of embracing stagnation, we should reduce the harm that accrues to those who lose their job due to progress. When the economy is growing and employment opportunities are plentiful people are less worried about losing their job. Unfortunately, economic growth is stagnant in many areas of the country, and reviving it should be a top priority.

Place-based economic growth initiatives rarely work, so it's unlikely that government intervention can revitalize the nation's struggling areas. But it can get out of the way, and less regulation is a good place to start. Some states, such as Kentucky, have already begun the process of reducing regulation, and other states and municipalities should follow their lead and remove unnecessary or overly burdensome regulation that gums up the economy.

Government should also modify policies that subsidize remaining in low-opportunity places and replace them with policies that incentivize moving to more prosperous places. Programs such as unemployment insurance and disability payments can cushion the blow of job loss, but they also have the undesirable effect of trapping people in place. Thus there is a case to be made for modifying such benefits so that they are portable across state lines.

Also, occupational licensing needs to be reduced and prosperous cities need to quit using zoning and other land-use regulations to keep people out by limiting housing.

The U.S. has historically had one of the most flexible labor markets in the world. Workers and firms are free to relocate as necessary, and this has kept unemployment low and economic output high. It is discouraging to see this dynamism breaking down and the pernicious effects it has had on people's well-being. We cannot and should not force people to move, but we also should not deter them or incentivize them to stay. The policy-pendulum has swung too far towards the latter and a push in the other direction would help a lot of people and the economy as a whole.