

GLOBALIZATION AND RESTRUCTURING IN RURAL AMERICA

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How are rural workers and industries affected by globalization?:
Discussion of papers by Jean Crews-Klein and Karen Hamrick

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“How are rural workers and industries affected by globalization?”
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How rural workers and industries are affected by globalization is taken up by the authors of these two papers using a narrow approach that zeros in on the negative economic impacts of substituting imports for domestic production of selected manufactured goods. In the case of Crews-Klein, the focus is on how imports have affected rural workers and industries in “traditional rural manufacturing industries.” Hamrick’s concern is the displacement of textile and apparel workers.

A general comment is that a more balanced view of how globalization affects rural workers and industries would consider the positive impacts from expanded trade: new export opportunities, added incentives for rural workers and youth to invest in the human capital needed to compete for the higher skill jobs as low skill and low paying jobs are spun off to LDCs, and general welfare benefits from lower consumer prices. After all, economists agree that there are welfare enhancing effects from expanded trade among countries.

My more specific comments address the impacts from increasing imports as framed by the authors. Karen has been a leading scholar investigating the causes and consequences of displaced workers in rural America for some time now – giving papers and publishing results on this topic for nearly a decade. Crews-Klein is deeply involved with an array of programs that seek to mitigate the impacts on former textile and apparel workers from lost jobs and lower earnings. So, I am delighted to see both take a careful look at the

textile and apparel industries that have been so important to the economic development of the South over much of the twentieth century. What can we take away from these presentations today?

First: textile and apparel jobs are declining rapidly and these jobs are geographically concentrated in the rural South. Second, programs to help those who have lost these jobs are not funded at levels needed to address the growth in displaced workers in these industries.

These trends are critical to the theme that the worker displacement problem is important in these industries and to the rural South. Hamrick indicates that these jobs fell by about 80,000 per year over the past decade – leaving about 800,000 jobs in 2004. At that rate of decline, there will be no textile and apparel industry in the U.S. by 2014. Some argue that NAFTA, China's accession to the WTO, the end of the MFA in January 2005, and enactment of the President's CAFTA initiative have or will ensure this zeroing out scenario.

A more balanced view suggests that textile and apparel jobs will still be around in 2014 and beyond – but probably not in the form we know it today – low skill, low wage -- and probably not where it is concentrated today – in the rural South. There are four reasons why I think the textile and apparel industry will remain a vibrant, though smaller, source of employment in the rural economy despite continuing growth in imports.

1. First, there is a definitional issue regarding disappearing jobs in these industries. Some of the jobs lost in textiles and apparel can be attributed to outsourcing of jobs in IT, accounting services and other business services to service establishments. It's a definitional issue. When the IT jobs were done in-house at the manufacturing plant or its headquarters, the manufacturing firm and its establishments counted the IT jobs as "manufacturing" jobs. When a manufacturing firm out-sources IT jobs, **manufacturing employment declines even as manufacturing output expands.**
2. Second, Jack Stone and entrepreneurs of his ilk will establish style and fashion niches in apparel and textiles. Until about 15 years ago, Stone Manufacturing headquartered in Greenville, SC was best known as the manufacturer of UMBRO soccer garments. With Pele as its spokesman, UMBRO spread quickly as the "must have" shirts and shorts for young soccer players around the world. Stone Manufacturing spun off manufacturing jobs to LDCs and eventually the UMBRO brand name. Mr. Stone has moved on to take a leading role in South Carolina's plan to form a "cluster" of thirty or so small (about 200 employees) establishments to market products in what might be thought of as "e-factory outlets." The jury is out on the probability that niche markets like these will keep small scale manufacturers of textiles and apparel alive and well as imports of textiles and apparel grow over time. Still, this suggestion from Porter's Monitor Group to SC state leaders has had the good fortune of catching the attention of Mr. Stone and his success in earlier marketing ventures gives it a good chance of success.

3. Third, some components of the textile industry like non-woven fabrics seem to be able to do well even with NAFTA, the disappearance of the MFA, etc. There is the famous story from Paul Krugman about the evolution of the carpet industry in the US. It started with sales of tufted bedspreads by a few women around 1900 in Dalton, Georgia. Tufting then expanded rapidly after WW II when mechanized carpet tufting replaced woven carpet mills. Today, the tufted carpet industry continues to provide a solid economic base in the nation's carpet manufacturing center -- Dalton.
4. Fourth, and perhaps most important is the current transformation of textiles into advanced materials. These new "clusters" of textile establishments are likely to grow and provide new jobs at the early stages of the manufacturing life cycle in the U.S. An established textile research infrastructure in the South should continue to put new products on the market. For example, the top new patent holders in SC from 1996 to 2000 were led by textile firms like Milliken. Clusters that may evolve from research in textiles and apparel according to DRI include biomedical materials and even nano-materials.

How this transformation of the textile and apparel industry will affect rural SC and other rural areas in the South is not known. Research is needed to shed some light on the rural development implications of these marketing and technological advances. One possibility is that textile research in urban areas and on college campuses will result in a new generation of textile products and manufacturing jobs that take root in the same rural counties that textile firms found attractive over the past decades. Maybe, but if the jobs

become routine, low skill jobs, it is hard to see why they too would not be “outsourced” to low labor cost areas of the world.

What then is the niche for low skill, high cost labor in the rural U.S.? This question leads to a third take-home theme from the presentations: **Displaced textile and apparel workers, who are disproportionately southern, rural and female with low levels of educational attainment, have greater difficulty in finding new jobs than workers in other industries. When they do, they receive lower pay than when they held a textile/apparel job.**

Is this consistent with theoretical expectations? Yes. According to Mills and Alwang (2004), economic theory supports the expectation that:

“...lower population density and thinner labor markets lead to greater transaction costs to employer-employee job matching, longer spells of unemployment, and high social costs to employment displacement (Kim 1987; Montgomery 1991).”

Other evidence on rural/urban differences in the duration of unemployment following job loss in manufacturing finds that.

1. **“adjacency to a metropolitan area labor market substantially decreases durations of unemployment following job loss. Thus, lack of access to the array of employment opportunities found in urban labor markets may increase the human costs associated with job loss.” (Mills, 2001).**
2. **“unemployment durations in rural areas also show a strong negative association with retail and service sector growth (Mills 2000). Thus, retail and service sector positions may provide an important source of new**

employment for those losing manufacturing jobs if the local economy is sufficiently diversified.” (Mills and Alwang, 2004).

What the Hamrick analysis can learn from Mills and Alwang is the need to capture the dynamics and spatial context of the regional economy – not simply the fortunes of the rural county where the textile or apparel plant is located or where the worker resides. For example, commuting matters a lot. This is especially true in southern states with rapidly expanding coastal areas and urban centers generating substantial job growth near rural areas. This regional perspective can be captured through explicit modeling of rural-urban labor market interactions (see Henry, et al 2001, for one example of this kind of modeling). In sum, research on labor displacement should incorporate labor market area dynamics if we want to improve our understanding of how rural workers and industry will respond to forces of globalization in “traditional rural manufacturing industries” like textiles and apparel.

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