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# INTERNATIONAL TRADE DEVELOPMENTS

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## Import Restraints: Special Focus on Labor Transitions

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*If all significant U.S. import restraints had been removed unilaterally in 1999, an estimated 175,000 workers would have lost jobs—in particular the textile and apparel sectors. On average, such displaced workers would be likely—relative to other displaced workers—to experience longer spells of unemployment but receive modestly higher wages once re-employed in new jobs. They would be likely to be concentrated in the Southeast United States—in particular the Carolinas—and would be more likely to be female, older, less educated, minority group members, and less likely to relocate after displacement. Worker characteristics, more than type of industry, may account more for differences in experiences following this displacement.*

### Introduction

In a recently released USITC study,<sup>2</sup> the effects of removing all significant U.S. import restraints were analyzed using the USITC Computable General Equilibrium Model of the United States, and data representing the 1999 economy. The analysis addressed the question, “*Had specific import restraints not been in place in 1999, how would the economy have differed from its actual condition in that year?*”

Among other results, the report estimated that approximately 17,000 net full-time equivalent (FTE) jobs would be created by the removal of all significant

U.S. import restraints in 1999.<sup>3</sup> In addition, approximately 175,000 FTE workers would be displaced, leaving sectors to which import restraints had been previously applied and moving to other sectors in the U.S. economy.

Of these workers, about 155,000 would be displaced from the textile and apparel sectors. Potential costs of this transition include lost income during unemployment, unemployment insurance, other transitional assistance, and potential loss of the value of training and experience for workers who switch industries.

The results highlighted here present a picture of the displacement experiences of workers who might potentially be displaced by further U.S. trade liberalization. Since they represent the effects of removal of all significant U.S. import restraints with respect to all trading partners, they can be considered as an upper bound for the possible effects of future liberalizations which may leave import restraints in place with

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<sup>2</sup> The material in this article is adapted from Chapter 7 of Investigation No. 332-375, *The Economic Effects of Significant U.S. Import Restraints: Third Update 2002* (Publication No. 3519, June 2002, found at Internet address at <ftp://ftp.usitc.gov/pub/reports/studies/PUB3519.PDF>). Readers interested in information on the nature of the import restraints analyzed, the USITC Computable General Equilibrium Model of the United States, and further results obtained from the model, are referred to the complete study.

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<sup>3</sup> The report considered two scenarios. The results in this article are based on a scenario in which all designated significant U.S. import restraints are removed. Under another scenario in which all measured U.S. import restraints are removed (including low tariffs less than 5 per cent *ad valorem*), the report estimated that approximately 35,000 net jobs would be created.

respect to some products and countries, such as the WTO negotiations under the Doha Development Agenda or the negotiations to establish a Free Trade Association of the Americas.

The analysis was conducted by matching the sector-by-sector employment effects generated from the USITC Computable General Equilibrium model with other public sources of data.<sup>4</sup> It gives insights into the potential geographic distribution of workers estimated to be displaced by simultaneous liberalization of all significant U.S. import restraints (hereafter, "IR displaced workers"), into their potential displacement experiences (length of spells of unemployment, wages received in new vs. old jobs), and into their personal characteristics. These displacement experiences and personal characteristics can be compared with those of the average worker displaced in the operations of the U.S. economy.

## Geographical Distribution

Estimates were made of the potential geographical distribution of IR displaced workers using a method taking into account actual historical job losses in the textile and apparel industry during 1997-2001.<sup>5</sup> The jurisdictions with the highest estimated ratios of IR displaced workers to all workers are primarily in the Southeast. In descending order, these are North Carolina, South Carolina, Mississippi, Rhode Island, Georgia, Tennessee, Puerto Rico, Virginia, New York, and Kentucky. These 10 jurisdictions would account for approximately 69 percent of all displaced workers that can be geographically assigned using the method.

<sup>4</sup> For the geographical distribution of workers by sector, data came from the State and Area Employment, Hours and Earnings series of the Current Employment Survey, published by the U.S. Department of Labor, Bureau of Labor Statistics, and from the 1997 Economic Census of the U.S. Department of Commerce, Bureau of the Census. Estimates pertaining to the individual transition experiences and personal characteristics of workers are based on the Displaced Workers Surveys, which are supplements to the Current Population Survey conducted by the Bureau of the Census for the Bureau of Labor Statistics. The full report contains further information on data and methodology.

<sup>5</sup> This approach reflects the idea that an industry contraction due to a hypothetical trade liberalization in 1999 might show similar features to the actual industry contraction during 1997-2001. The report presents an alternate estimate in which worker displacement in all industries is assumed proportional to 1997 baseline employment, which gives broadly similar results. The estimate presented here displays greater estimated geographical concentration of worker displacement. According to the Current Employment Survey, between 1997 and 2001 nationwide employment in textile mill products declined by 19.0 percent, from 618,100 workers to 500,700 workers, and employment in apparel and other textile products declined by 29.6 percent, from 823,600 workers to 586,600 workers.

Figure 1 illustrates graphically the estimated distribution of IR displaced workers relative to the labor force.

The estimated share of the labor force that would have been displaced by simultaneous unilateral liberalization of all significant U.S. import restraints in 1999 is 1.14 percent in North Carolina, 0.73 percent in South Carolina, and 0.33 percent in Mississippi. At the other extreme, labor displacement is estimated at 0.1 percent or less of the labor force for 38 states, as well as the District of Columbia and Virgin Islands, with many states having estimated labor displacement of zero. These states include virtually all of the Midwest, Southwest, and West; Florida and Alabama; and New England except for Rhode Island.<sup>6</sup>

## Post-Displacement Experiences

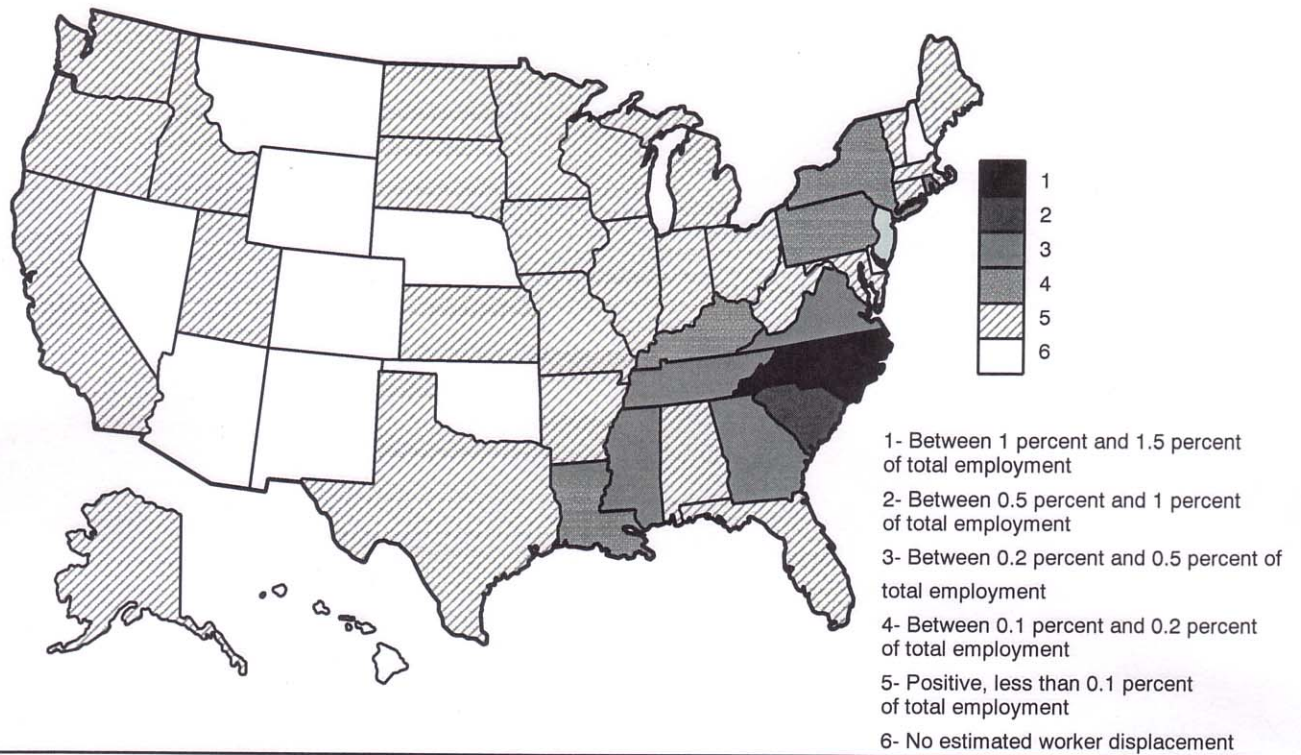
The Displaced Workers Survey provides information that can be used to assess the relative severity of the displacement experience for different types of workers. It assists in analyzing whether the experiences of workers displaced by import restraint liberalization is more or less severe than the experiences of those workers displaced throughout the U.S. economy as a whole. This information includes the length (in weeks) of unemployment for workers who were rehired after displacement, the probability of re-employment by the time of the sample date, the difference in wages between a worker's previous and current job, whether the worker received written notice prior to termination, the reason for displacement, whether the worker received unemployment compensation, and whether the worker moved after displacement.

The following analysis compares workers in those industries most likely to experience a contraction of employment after simultaneous liberalization of all U.S. import restraints to all displaced U.S. workers. It uses workers actually displaced from their jobs in those industries during 1995-1999 as proxies for IR displaced workers.

The estimated periods of unemployment are somewhat longer than average for IR displaced workers, averaging 14.02 weeks, compared with 10.48 weeks for all displaced workers. Figure 2 illustrates the distribution of periods of unemployment for all

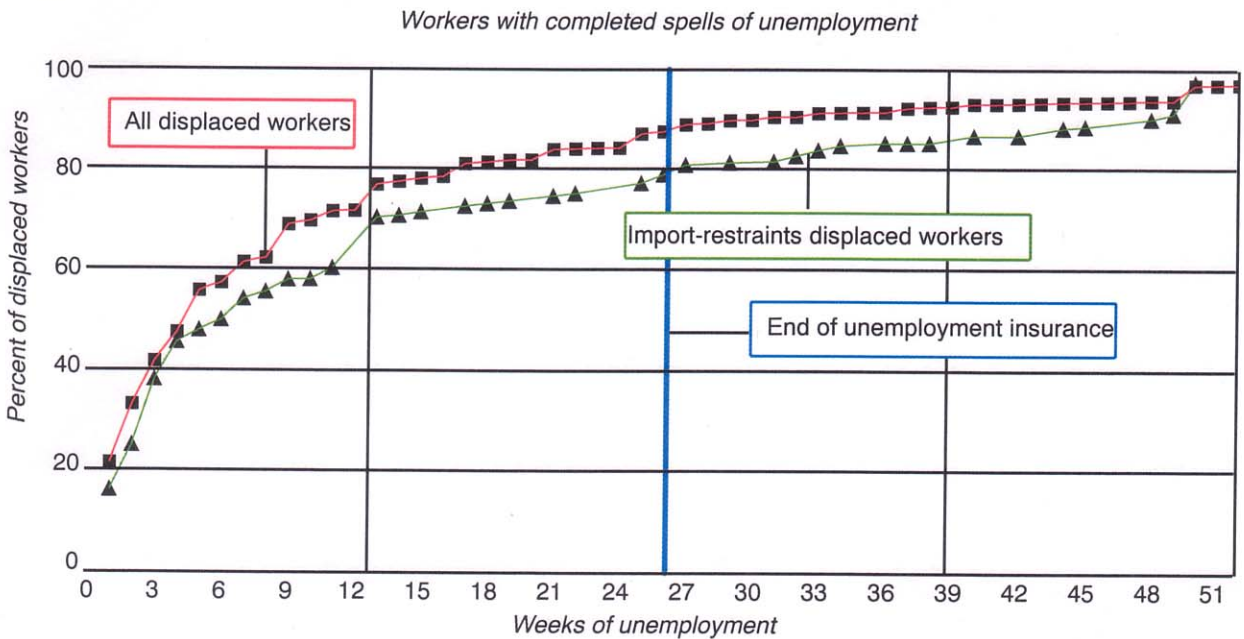
<sup>6</sup> Using the alternate estimate, estimated worker displacement for Alabama, California, and Maine would increase to a range of 0.11 to 0.14 percent. These are states with significant employment in textiles and apparel, but in which employment in those industries has been constant or increasing in recent years.

**Figure 1**  
**Estimated distribution of import-restraints displaced workers**



Source: Commission calculations.

**Figure 2**  
**Cumulative weeks of unemployment**



Source: Displaced Workers Survey, BLS, USDOL, found at [www.bls.census.gov/cps/dispwkr/dispwkr.htm](http://www.bls.census.gov/cps/dispwkr/dispwkr.htm), retrieved Dec. 31, 2001, and USITC calculations.

displaced and IR displaced workers. Approximately 10.5 percent of all displaced workers and an estimated 19.7 percent of IR displaced workers have periods of unemployment exceeding the 26 weeks at which unemployment insurance is usually exhausted. The estimated share of IR workers who found jobs at the time of the survey is 64.1 percent, compared with 80.4 percent for all displaced workers.

These statistics appear to suggest that IR displaced workers have a harder time finding re-employment than other workers. In interpreting these comparisons, several cautions are in order. The data on periods of unemployment are probably more useful than those on the percentage of workers who have been rehired. The probability of rehire measures the number of workers as of the survey date (February 1998 or February 2000) as a share of all those workers displaced during the period when workers were surveyed (1995-1997 or 1997-1999). Thus, workers laid off just before the survey date will not have been rehired but may experience only short periods of unemployment. This possibility cannot be checked directly because the survey does not reveal the date of displacement with precision, and because about one-third of displaced workers report being displaced and rehired more than once.<sup>7</sup>

Moreover, a displaced worker who has not found a job by the survey date may not be unemployed at all. This worker may have left the labor force for a variety of reasons. Such persons include retirees, homemakers, students, and discouraged workers who leave the labor force. In fact, it turns out that the percentage of IR workers not in the labor force is significantly higher than for all displaced workers. At least part of the difference between labor force attachment rates, and thus employment probabilities at the time of the survey date, relates to differing characteristics of workers in different industries. As will be seen below, a higher number of IR displaced workers are female. The percentage of female workers in the apparel industry is particularly high. When workers with more similar characteristics are compared (e.g. comparing only female workers, or only married female workers with the spouse present) the difference in labor force exit rates between IR displaced workers and all displaced workers decreases, eventually to the point where it is no longer statistically significant.

<sup>7</sup> The length of unemployment period used here refers to the first period of unemployment, for which the data are most extensive.

On average, both IR displaced workers and all displaced workers are earning more in their current jobs than in the job they left: 8.8 percent more for all displaced workers and 4.5 percent more for IR displaced workers.<sup>8</sup> Again, because some workers have multiple periods of unemployment, this calculation may not be a direct comparison of the difference between the old job and the first new job. The proportion of workers experiencing severe wage decreases (exceeding 20 percent) is estimated to be lower for IR displaced workers (10.4 percent) than for all displaced workers (13.0 percent), but this difference is not statistically significant.

The likelihood that a worker receives written notice before displacement is significantly higher for IR displaced workers than for all displaced workers. IR displaced workers are much more likely to have lost their jobs for reasons associated with permanently reduced demand for their U.S. industries' output, such as the plant or company closing or moving, insufficient work, or their position or shift being abolished. These reasons account for an estimated 100 percent of displacements among IR workers, compared with 70.4 percent of all displacements. IR workers also are significantly more likely to receive unemployment insurance than other workers after their old job ends (63.8 percent for IR workers versus 38.3 percent for all workers), perhaps in part because their reasons for displacement are more likely to coincide with the eligibility criteria for unemployment insurance.<sup>9</sup> IR displaced workers are estimated to be significantly less likely to move geographically after losing their jobs than displaced workers as a whole (10.5 percent of IR workers versus 14.4 percent of all workers).

## Worker Characteristics

As noted in a recent study by Lori Kletzer,<sup>10</sup> the reasons for post-displacement outcomes may have less

<sup>8</sup> Neither figure is adjusted for inflation.

<sup>9</sup> The eligibility requirements for unemployment insurance are determined by State law. They include the requirement that the worker have been employed steadily during a base period (in most States, four out of the last five completed calendar quarters prior to the filing of a claim), that the worker be unemployed through no fault of their own (as determined by State law) and other requirements. See the U.S. Department of Labor website, found at <http://workforsecurity.doleta.gov/unemploy/uifactsheet.asp>, retrieved June 7, 2002. Workers on seasonal jobs, self-employed workers, and those displaced for miscellaneous reasons may have a harder time qualifying under such requirements than workers whose plant or firm closes, offers them insufficient work, or abolishes their position or shift.

<sup>10</sup> Lori G. Kletzer, *Job Loss from Imports: Measuring the Costs* (Washington, DC: Institute for International Economics, 2001).

to do with the industry from which the worker was displaced than with characteristics of the workers themselves. She found that both the probability of re-employment and the current wage were higher for displaced workers younger than age 45 and for more-educated displaced workers. Post-displacement outcomes also are better for workers with short rather than long tenure on their previous jobs; this effect is clearer and stronger for post-employment wages than for the probability of re-employment. Females and minority workers<sup>11</sup> were less likely to be re-employed by the survey date, particularly married females displaced from manufacturing. Married females earned lower wages at the time of the survey relative to their

<sup>11</sup> Kletzer (see footnote 48) defines minority workers as both nonwhite workers and Hispanic workers. In the Current Population Survey, the identification as "Hispanic" is a non-racial category that may coincide with any race.

previous jobs than other displaced workers.<sup>12</sup> Thus, some of the differences in outcomes for IR displaced workers may be associated with their personal characteristics.

Table 1 illustrates the estimated differences between personal and employment characteristics of IR displaced workers and all displaced workers from 1995 to 1999. IR displaced workers are estimated to be significantly more likely to be female, significantly

<sup>12</sup> For comparison, note that Kletzer used all Displaced Worker Surveys from 1984-2000, covering workers displaced from 1979-99, while the present study used only the surveys from 1998 and 2000, covering workers displaced from 1995-99, in order to better match the year of the model experiment. Kletzer found that the probability of re-employment in general was significantly higher for workers displaced during 1993-99 than during 1979-92.

**Table 1**  
**Difference between personal and job characteristics of IR displaced workers and all displaced workers, 1995-99**

	IR displaced workers	All displaced workers
Age ( <i>years</i> ) . . . . .	142.1	38.8
Sex (percent female) . . . . .	160.2	46.8
Hispanic ( <i>percent</i> ) . . . . .	127.8	13.0
Length of tenure on old job ( <i>years</i> )	17.1	4.9
Member of union (or similar organization) on old job ( <i>percent</i> ) . . . . .	311.8	9.4
		<i>Percent</i>
<b>Education</b>		
Less than high-school diploma . . . . .	133.1	14.0
High-school diploma . . . . .	34.8	32.8
Some college . . . . .	123.9	31.1
Bachelor's degree . . . . .	16.3	15.7
Some graduate education . . . . .	11.8	6.3
<b>Marital status</b>		
Married-spouse present . . . . .	54.7	54.3
Married-spouse absent . . . . .	1.7	1.6
Widowed . . . . .	2.5	2.1
Divorced . . . . .	216.8	13.1
Separated . . . . .	16.8	3.5
Never married . . . . .	117.6	25.3
<b>Race</b>		
White . . . . .	174.0	82.3
Black . . . . .	119.4	13.2
American Indian, Aleut, Eskimo . . . . .	23.1	1.2
Asian or Pacific Islander . . . . .	3.5	3.3

<sup>1</sup> Difference between samples is statistically significant with 99 percent confidence.

<sup>2</sup> Difference between samples is statistically significant with 95 percent confidence.

<sup>3</sup> Difference between samples is statistically significant with 90 percent confidence.

Source: Displaced Workers Survey, Bureau of Labor Statistics, Department of Labor, found at Internet address <http://www.bls.census.gov/cps/dispwkr/dispwkr.htm>, retrieved on Dec. 31, 2001, and USITC calculations.

more likely to belong to minority groups (particularly Hispanic, black, and Asian/Pacific Islander), significantly less educated than other displaced workers, and more likely to be older (an average of 42.1 years for IR workers versus 38.3 years for all workers). They are equally likely to have belonged to a union or similar employee organization on their previous jobs. A similar majority of all displaced workers (54.3 percent) and estimated IR displaced workers (54.7 percent) are married, with spouse present. The estimated percentage of IR displaced workers who never married is lower, which is associated with the higher average age of such workers, while the estimated percentages of divorced or separated workers is higher than for all displaced workers. IR displaced workers are estimated to have longer tenure on their previous jobs at 7.1 years than all displaced workers at 4.9 years, which may also be associated with age.

Both Kletzer's analysis and the analysis in the *Import Restraints* study presented here associate particular worker characteristics with lower probabilities of re-employment and/or lower post-re-employment wages for the population as a whole. On balance, IR displaced workers are more likely than other displaced workers to possess these characteristics, which may explain much of the difference in estimated post-displacement experiences of IR displaced and all displaced workers. This makes it less likely that simply being in an import-sensitive industry causes the displacement experience to be more severe.<sup>13</sup>

## Further Implications

### *Aggregate Unemployment*

The estimated 175,000 workers who would be displaced if all significant U.S. import restraints were unilaterally liberalized is relatively small compared to the size of the economy. It is important to recognize that trade policies under agreements that the United States has implemented, such as NAFTA and the Uruguay Round Agreements, are often phased in over periods of 5 to 15 years. The following calculations with respect to the unemployment rate model the amount of displacement as if it occurred simultaneously. Although these calculations represent an unrealistic scenario, given the phase-in period normally followed, they can be viewed as an extreme upper bound for evaluating the displacement effects of the liberalization analyzed in this report.

<sup>13</sup> No regression analysis has been performed to see whether any part of the difference in outcomes is attributable to being an IR displaced worker per se.

In a typical week, between 300,000 and 400,000 U.S. workers apply for unemployment compensation. Given that an estimated 63.8 percent of IR displaced workers likely would receive unemployment compensation, the estimated one-time increase in workers receiving unemployment compensation as a result of removing all significant import restraints is approximately 111,000,<sup>14</sup> equal to about two days' worth of new claims. This estimate takes into account the fact that workers in the affected industries are significantly more likely to receive unemployment insurance, as reflected in the data from the Displaced Workers Survey.

Also, as shown above in the data on periods of unemployment, many workers find jobs within several weeks or months of displacement.<sup>15</sup> If all 175,000 workers had been laid off simultaneously during 1999, aggregate unemployment would have increased from the average 4.22 percent observed in calendar 1999 to 4.34 percent. The measured difference would become negligible (less than 0.05 percent) within several months after the initial displacement, because many of the displaced workers would find work or leave the labor force. Local or regional effects, as discussed below, might differ.

As previously stated, such effects mark an extreme upper bound for such labor market effects. Not only would an actual liberalization be phased in over a period of time, but both workers and firms likely would anticipate the policy action, also causing the labor market effects to appear gradually. For example, by 1995 it was known that U.S. quantitative restrictions in textiles and apparel were scheduled for elimination in 2005. Worker and firm decisions based on this knowledge may have contributed to the steady declines in employment in those industries in the intervening years.

### *Regional Employment Effects*

The estimated differences between the displacement experiences of workers in industries significantly affected by import restraints and other displaced workers may appear relatively mild, considering that

<sup>14</sup> This number is derived as a USITC calculation by applying the proportion of IR displaced workers receiving unemployment compensation to the total number of displaced FTE workers as follows:  $(174,784 \text{ displaced FTEs}) * (0.6376) = 111,442$ .

<sup>15</sup> The average duration of unemployment is most likely higher during recessions and lower during expansions. While no direct comparisons of unemployment duration across time were readily available, it is known that displacement rates of long-tenured workers are higher during recession years (Ryan T. Helwig, "Worker Displacement in a Strong Labor Market," *Monthly Labor Review*, June 2001, pp. 13-28; see Table 1) and that the probability of re-employment for workers with similar personal characteristics is higher during periods of prolonged expansion than during recession (Kletzer (2001), Tables 4.1 and 4.2).

the workers in question likely would be concentrated in just those states that have experienced significant contractions in textile and apparel employment in recent years. According to the analysis earlier in this chapter, actual displaced workers in these and other industries affected by import restraints experienced a period of unemployment not much greater than those of other displaced workers and were less likely than other workers to experience severe wage losses exceeding 20 percent. Part of the explanation may lie in the fact that the recent contraction in textile and apparel employment has taken place in parts of the country for which aggregate employment has increased strongly. Thus, displaced workers in textiles and apparel have found alternate opportunities in other industries.

In each of the ten jurisdictions estimated as having the highest shares of IR displaced workers, as named above, aggregate employment grew between 1997 and 2001 while employment in textiles and apparel declined. In North Carolina, for example, nearly four jobs were created statewide for every textile and apparel job lost; in South Carolina, nearly three; and in Georgia, Virginia, and New York, more than 10. For the group as a whole, while employment in textiles and apparel declined by 244,000 workers, nonfarm employment in other industries increased by 2.176 million. Thus, many former textile and apparel workers have been looking for, and finding, jobs in relatively strong regional labor markets.

At the local level, labor dislocations in textile, apparel, and other industries may be heavily

concentrated in certain counties and metropolitan areas, and may thus induce further labor dislocation in service and other industries serving the general population. The estimates of labor displacement in the current study and the inferences drawn from those estimates in this chapter do not take such effects into account.

An important caveat to the analysis of the Displaced Workers Survey is that the results presented utilize all observations from IR displaced workers, rather than only those who take up employment in a non-IR sector. In the event of an actual liberalization, there would be a net transfer of labor into non-IR sectors. This could affect the labor market outcomes of the workers displaced either positively or negatively. It is not yet clear whether workers who leave textiles, apparel, and other sectors with import restraints for other sectors experience longer or shorter durations of unemployment, or receive better or worse wages, than workers re-employed in their old sectors.<sup>16</sup> Further research on such transition experiences may yield new insights.

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<sup>16</sup> For example, the results of Alfred J. Field and Edward M. Graham, "Is there a Special Case for Import Protection for the Textile and Apparel Sectors Based on Labour Adjustment?" *The World Economy*, vol. 20, No. 2 (Mar. 1997), pp. 137-157, using a large and unique sample of North Carolina unemployment records, found that apparel workers who were laid off during 1986-1991 and re-employed by the first quarter of 1992 experienced an estimated average 5 percent wage increase if re-employed by the same industry and 34 percent wage increase if employed by other industries.