‘Export Base’ Employment and Poverty

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Submitted abstract:

"…**explores *whether export-base growth strategies are immiserizing*.**

Using panel data concerning county employment shares in 'basic' or export sectors, she investigates if places that continuously have net trade surpluses impoverish themselves, or if employers in export industries seek impoverished localities.

She uses time-series econometric techniques to model household poverty and household wealth per working age adult as a consequence or cause of net export orientation."

Actual abstract:

Argues that 'export-base' development strategies are *impoverishing*.

Using county-level data in 1990 and 2000, estimates how *changes in* total population, employment, median family income, income per capita, and poverty rates *depend on the initial* shares of employment in export sectors.

Every place has a *balance of payments*

Cash inflows | Cash outflows

Current account

- Export sales
- Out-commuters' earnings
- Net unilateral transfers

- Import purchases
- in-commuters pay

Capital account

Investment by outsiders:

- Loans to rural borrowers
- Purchases of rural property
- Rural company equity issues

Outflows of local savings:

- Loans to trade partners
- Purchases of urban assets
- Purchases of equities

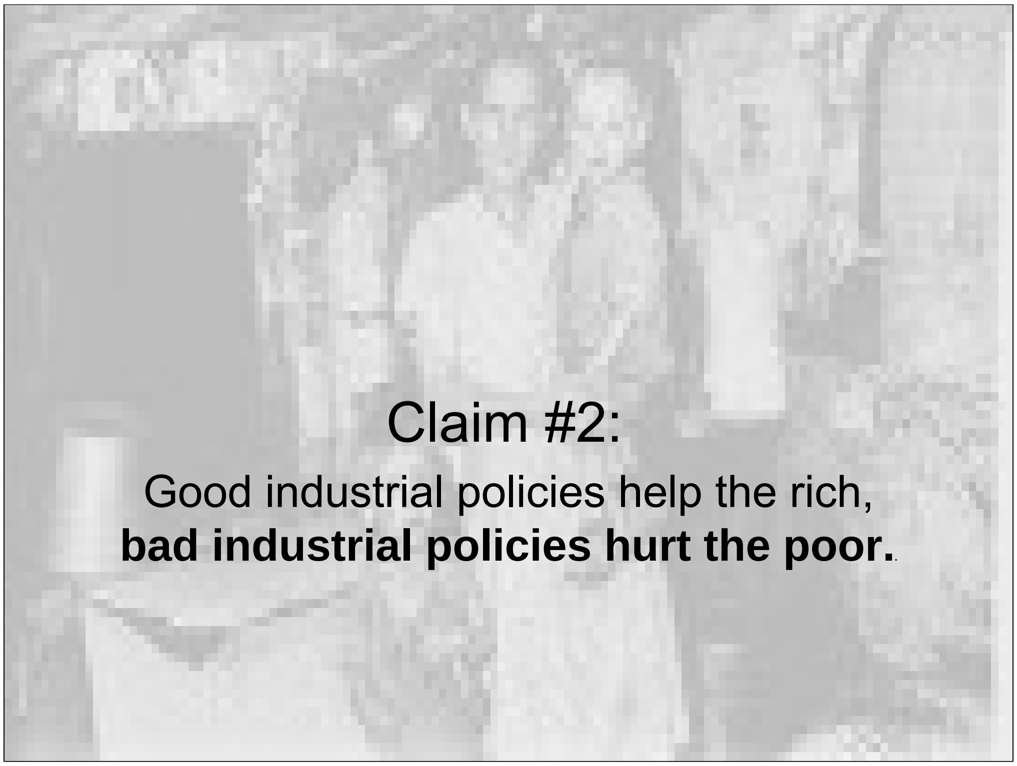
Claim #1:

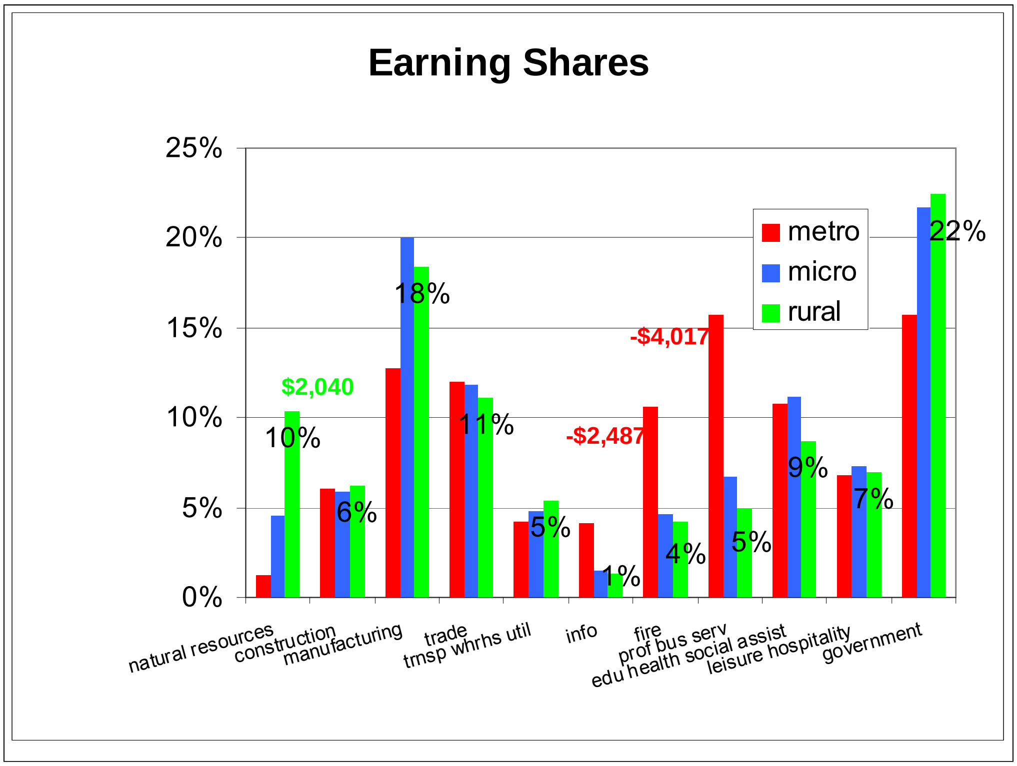
"If a region's earnings from exports exceed its outlays for imports, on net there is an exodus of productive resources from the region (as embodied in goods and services traded). In this sense the region is loaning its resources to other areas, … the region is a net investor, or exporter of capital.

By the same token, if imports exceed exports, the region is receiving a net inflow of capital from outside.

It is patently absurd to argue that the way to make a region grow is to invest the region's savings somewhere else, and that an influx of investment from outside is inimical to growth.

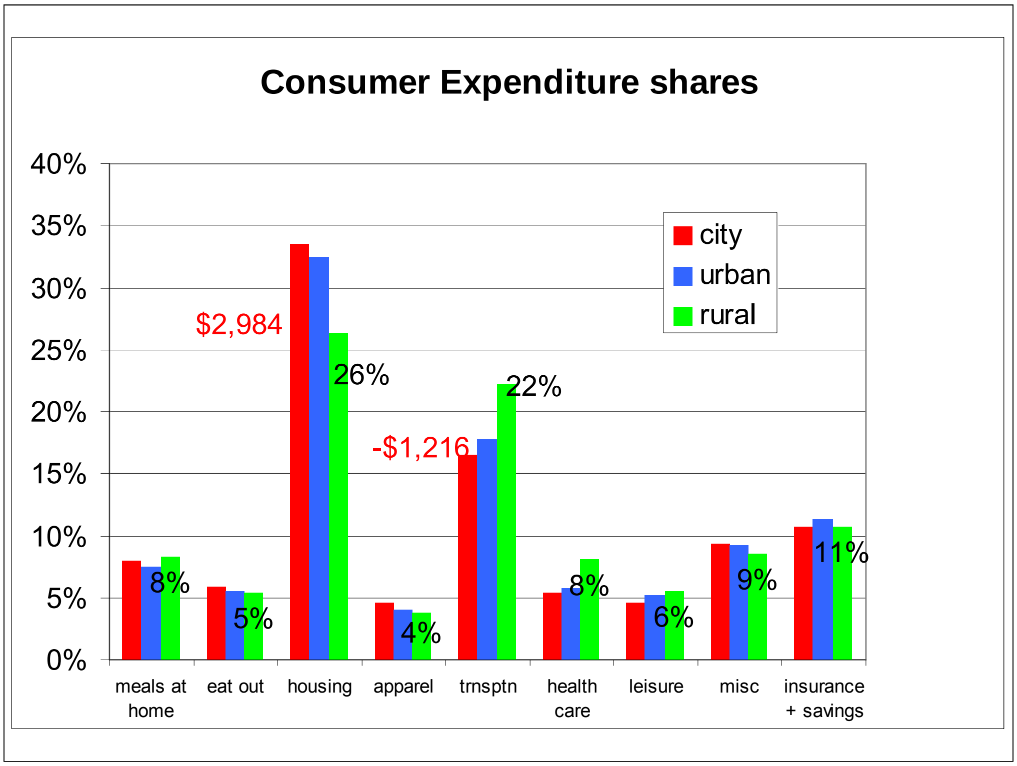
If anything, it would seem more plausible to infer that a region's growth is enhanced if its capital stock is augmented by investment from outside—which means that the region's *imports should exceed its exports*." (**Hoover and Giarratani**, 1984; http://www.rri.wvu.edu/WebBook/Giarratani/chaptereleven.htm)


Claim #2:
Good industrial policies help the rich,
bad industrial policies hurt the poor.



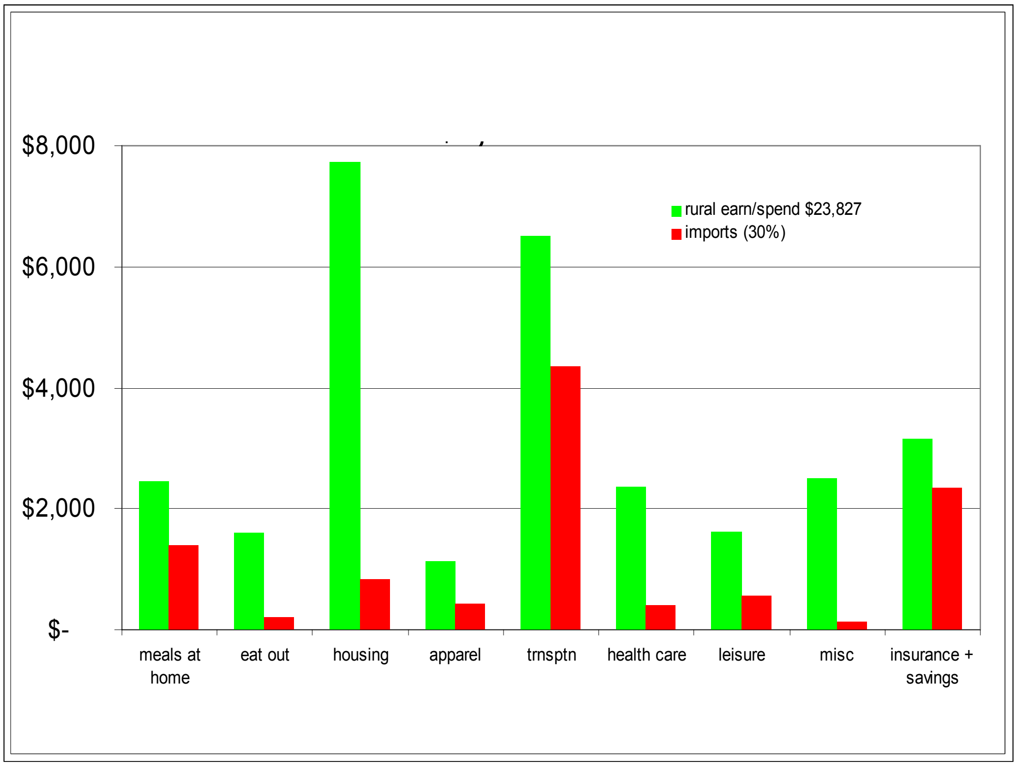
Earning Shares
25%
20%
15%
10%
5%
0%
metro
micro
rural
$2,040
10%
6%
18%
11%
5%
1%
-$2,487
-$4,017
4%
5%
9%
7%
22%
natural resources
construction
manufacturing
trade
trnsp whrhs util
info
fire
prof bus serv
edu health social assist
leisure hospitality
government

Export Sectors	Local Sectors
Farms	Utilities
Forestry, fishing, and related activities	Construction
Oil and gas extraction	Retail trade
Mining, except oil and gas	Truck transportation
Support activities for mining	Transit and ground passenger transportation
MANUFACTURING	Broadcasting and telecommunications
Wholesale trade	Information and data processing services
Air **transportation**	Real estate
Rail transportation	Rental and leasing services
Water transportation	Legal services
Pipeline transportation	Misc professional, scientific and tech services
Warehousing and storage	Waste management and remediation services
Publishing industries (includes software)	Educational services
Motion picture and sound recording industries	Ambulatory health care services
Federal Reserve; **credit intermediation**	Hospitals nursing and residential care facilities
Securities, commodity contracts, investments	Social assistance
Insurance carriers and related activities	Performing arts, spectator sports, museums
Funds, trusts, and other financial vehicles	Amusements, gambling, and recreation
Computer systems and related services	Food services and drinking places
Management of companies and enterprises	Other services, except government
Administrative and support services	State and local General government
Accommodation	State and local Government enterprises
Federal General government	
Federal Government enterprises	
Noncomparable imports	
Scrap, used and secondhand goods	



Consumer Expenditure shares
40%
35%
30%
25%
20%
15%
10%
5%
0%
city
urban
rural
$2,984
26%
-$1,216
22%
8%
5%
4%
8%
6%
9%
11%
meals at home
eat out
housing
apparel
trnsptn
health care
leisure
misc
insurance + savings

- using BEA’s Personal Consumer Expenditure data, account for the value of total expenditure that could plausibly be locally supplied
- the rest would have to be imported
- How much would have to be earned from exports to be able to afford the imports?


$8,000
$6,000
$4,000
$2,000
$-
rural earn/spend $23,827
imports (30%)
meals at home
eat out
housing
apparel
trnsptn
health care
leisure
misc
insurance + savings

When non-basic spending is about 70%,
the “export base multiplier” is about 3.3.

The BEA data on earnings
and BLS data on spending
suggest that on average U.S. rural counties
may be **net exporters**
and have **net capital account *deficits*.**

So What?
Is this purely hypothetical, or is there empirical evidence?

Measure a county's net export orientation by the shares of employment in farming, mining, and manufacturing in 1990.

Regress each dependent variable (growth,…, poverty rate) on net export orientations in 1990, controlling for rurality (population size, distance to metro), education, age structure, and state fixed effects…

Adjust t-statistics for spatial error correlation within MSAs using the Stata cluster command.

Is county development to 2000 negatively related to net export orientation?

	Change 1990 to 2000 in:				
	Population	employment	median famil y inco me	per capita incom e	Poverty
farming	-		+	-	**worse**
mining	--	-	-	-	**worse**
manufacturing	--	-			
					worse
Distance to metro	-	-	-	-	**better**
HS degree	+		+	+	
AA degree		+			
Bachelor's	+		+	+	

Mark: “we know that places with a weak industry composition fare worse over long periods.

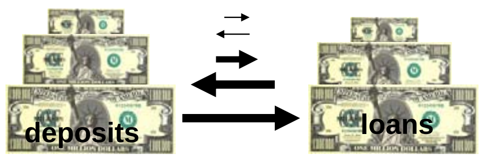
Should we be asking if after accounting for their industry mix growth rate (or lack of it), how do counties with especially high net export orientations fare?”

Control for “industry mix growth”
$= \sum_i$ nat’l sector_i trend * cnty $\text{sector}_{i,1990}$ share

	Change 1990 to 2000 in:				
	Population	employment	median family income	per capita income	Poverty better
farming	+	+	++	++	better
mining				++	better
manufacturing	++	++	+	++	better
Industry mix growth	++	++			worse
Distance to metro	-	-	-	-	better
HS degree			+	+	
AA degree	+	+	+	+	
Bachelor's			+	+	

If a place doesn't earn a surplus on exports or sell property to outsiders, *where will new money for growth come from*?

Money grows when commercial banks make local loans out of local deposits.



In USA, the deposit or *money multiplier* is between 2 and 3.

Policy implications

- Encourage ‘***non-basic’*** rural development
  = Quality housing, cafes, hotels, entertainment
- Encourage work
  = “take in our own washing”
  = Low skill wage employment
- import (if cheaper & better; save/invest locally)
  = Empower commercial banks
  = Facilitate coordination (*rural* business is dispersed)


THANK YOU
FOR COMING-
WE HOPE YOU ENJOYED YOUR STAY
HAVE A SAFE TRIP