



Center for
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Wisconsin
Economy
University of Wisconsin- Madison

Industry Concentration and Local Labor Market Dynamics

Simeon Alder¹

Center for Research on the Wisconsin Economy, UW-Madison
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Abstract

In recent years, a growing literature has analyzed the effects of various shocks and policies on local employment growth. One area that has garnered considerable attention among both researchers and policymakers is the role of international trade and globalization in local labor markets. The rise in imports of light manufactures from China in the wake of the country's accession to the WTO and its effects on manufacturing jobs in the United States has been the subject of a growing literature in recent years. In this report we explore a plausible alternative explanation for local employment dynamics. In contrast to earlier work, we focus on total employment rather than manufacturing jobs and we hypothesize that counties with a less diversified industry mix tend to exhibit lower employment growth. We use county-level employment data from the *County Business Patterns* (CBP) for the years 1992-2016 together with detailed import statistics and we find that local variation in a standard concentration index can account for an economically and statistically significant share of local employment growth. Industry concentration matters more than exposure to the rise in Chinese imports. More diversified local economies are better able to absorb external shocks. Although trade exposure plays a somewhat more significant role in Wisconsin compared with the rest of the country, it does not diminish the economic or statistical significance of industry diversification for labor market outcomes.

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