Who Doesn’t Have Health Insurance and Why

An increase in the number of Americans without health insurance has become an important concern for policymakers. An analysis of the Census Bureau’s Current Population Surveys reveals that the number of people in the United States without health insurance at some point during the year has grown from about 31 million in 1987 to nearly 45 million in 2003. The uninsured increased from 14 percent of the total nonelderly U.S. population in 1987 to 18 percent in 2003.

Texas has an even larger proportion of individuals lacking health insurance. The percentage of uninsured in Texas has been consistently about 10 points above the national average (Chart 1). In 2003, 27 percent of the Texas population was uninsured.

Health Insurance Issues

The large and growing number of uninsured raises issues for society on at least three levels. It starts with the burden on the uninsured and their families, but it also affects the larger society and influences the labor market.

Productivity Gains Showing Up in Services

Since the end of World War II, American productivity has risen steadily, with manufacturing leading the way. The service sector has recorded slower productivity growth, restraining the economy’s overall performance.

The productivity gap between manufacturing and services has been so persistent that it has acquired a nickname—“Baumol’s disease.” In the 1960s, New York University economist William Baumol noted that services were inherently labor-intensive, often delivered via one-on-one contact with customers. By their very nature, services resisted efforts to squeeze more output from each hour’s work.

That may be changing. Services have been performing better in the current business cycle, nearly catching up with manufacturing. Not that U.S. factories’ productivity gains are slacking off; they’re as strong as ever. Services pro-
Impact on Health. The uninsured are up to four times less likely to have a regular source of health care. They are about 30 percent more likely than insured adults to go without screenings for diabetes, heart disease and other conditions. According to a 2003 report by the Robert Wood Johnson Foundation, the uninsured are more likely than those who have health coverage to receive second-rate care and to die from health-related problems. Economic research suggests that extending health coverage to the uninsured could improve their overall health on average by 7 to 8 percent.

Impact on Society. Beyond the issue of their health, the uninsured create ripples for society as a whole. First, lack of private coverage can increase dependence on public health insurance programs like Medicaid and Medicare. The trend of coverage rates through employer-sponsored insurance and Medicaid from 1987 to 2003 is somewhat indicative of this phenomenon (Chart 2). During the recession of the early 1990s, a drop in employer-sponsored insurance resulted in an increase in coverage by Medicaid. After recovering in the mid- to late ’90s, employer-sponsored insurance plunged again in 2000 with a concomitant rise in Medicaid.

Second, those not eligible for public insurance and not covered by private insurance end up getting treatment at hospital emergency rooms and other facilities. What they cannot pay is eventually financed by tax dollars. Encouraging health insurance coverage through the private market is a superior alternative to this backdoor financing.

Health Insurance and the Labor Market. Lack of health insurance has implications for the labor market. First, health insurance can have important consequences for labor force participation for younger people, particularly single women on welfare. Much of the recent thrust of welfare reform has been to increase work incentives, but individuals who cannot obtain health insurance on the job are more likely to stay on public assistance that comes with Medicaid coverage.

Second, the availability of health insurance affects retirement decisions. Older people not yet eligible for Medicare may decide to keep working if they don’t have health insurance outside the job. Access to retiree health insurance increases the likelihood of retirement by 30 to 80 percent.

Third, nonavailability of health insurance can induce job immobility, creating what economists have called “job lock.” The presence of spousal health insurance increases job turnover by 25 to 40 percent. Job lock poses several potential costs to society: the well-being lost by individuals who cannot move to jobs they want; the productivity lost by unhappy workers; and the positive spillovers lost from good job matches between firms and workers. Estimated costs due to job lock range from as low as $3 billion to as much as $30 billion.

Health issues for the uninsured, spillovers for the health care system and labor market impacts have led to a broad consensus among researchers as well as political leaders that expanding private health insurance coverage would be good public policy. Before designing such a policy, however, it is important to understand who are uninsured and why they do not have coverage.

Who Are the Uninsured?
The likelihood of health insurance coverage is highly correlated with economic status. Fifty-six percent of Americans below the federal poverty guideline were uninsured during some part of the years 2001 and 2002, compared with 16 percent of those whose incomes were more than four times the guideline.

Being employed often means having access to health care coverage. About 60 percent of all Americans obtain coverage through their employer (Chart 3), making employer-sponsored insurance the mainstay of the U.S. health insurance system. Employer-sponsored insurance is also the major source of health care coverage in Texas, accounting for more than half of the state’s population.

Even though employer-sponsored health insurance plays a prominent role in the U.S health care system, 71 percent of the uninsured were employed either full-time or part-time during 2001–02 (Chart 4). The remaining 29 percent were either unemployed or out of the labor force. Texas has a slightly larger percentage of uninsured in the workforce than the nation as a whole.

Race and ethnicity matter, too. One in three people under the age of 65 went without health insurance during some part of 2001–02, but the figure rose to 52 percent for Hispanics and 40 percent for blacks. By contrast, only 23 percent of non-elderly whites had a spell without insurance in the two-year period.

Looking at the overall percentage of uninsured within a demographic group can sometimes be misleading, however. This seemingly large racial gap in health insurance coverage rates may be due to factors other than race. A higher proportion of Hispanics are uninsured than whites and African-Americans, but this may simply reflect Hispanics’ larger presence at the lower end of the income distribution. Another important factor may...
be the greater probability of Hispanics working in smaller firms, where getting group insurance coverage through the employer is difficult.

Table 1 analyzes the correlation of different demographic characteristics with the likelihood of being uninsured. Being Hispanic, black or self-employed is positively correlated with being uninsured. Age, being a native-born, being married, having a college degree, working full-time and belonging to a union are, as expected, negatively correlated with being uninsured. Males are marginally less likely to have health insurance coverage than females.

What Explains the Larger Percentage of Uninsured in Texas?

Texas echoes the rest of the nation in most characteristics of the uninsured, except for the ethnicity factor. Hispanics make up a third of the state’s population—much larger than the 13 percent for the United States as a whole. More than half of the uninsured in Texas are Hispanic, compared with 25 percent for the nation (Chart 5).

The large Hispanic population helps explain why Texas has a much higher proportion of uninsured. Everything else remaining the same, a Hispanic is more likely not to have health insurance coverage than a non-Hispanic white. Using estimates from Table 1, the expected likelihood of being uninsured is 6 percentage points higher in Texas than in the United States. Demographic characteristics seem to explain more than half of the gap in percentage uninsured between Texas and the rest of the nation. More research is required to determine whether the low rate of health insurance among Hispanics results from factors beyond low incomes and employment at small firms.5

The Health Insurance–Employment Connection

Even though employers provide about 90 percent of all private insurance, a job is not a guarantee of health care coverage. The existence of a large number of uninsured among the employed raises questions about why some workers have access to insurance and others don’t. It is possible that many workers choose not to enroll in their company’s

---

**Chart 3**

**Sources of Health Insurance, 2003**

- Employer-based
- Directly purchased
- Medicaid
- Medicare
- Military
- Not covered

**Chart 4**

**Distribution of Uninsured by Employment Status, 2001–02**

- Employed
- Unemployed
- Not in labor force

**Table 1**

**Effect of Household Characteristics on Probability of Being Uninsured**

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Effect on probability of being uninsured</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hispanic</td>
<td>+.15</td>
</tr>
<tr>
<td>Native born</td>
<td>−.14</td>
</tr>
<tr>
<td>Union member</td>
<td>−.11</td>
</tr>
<tr>
<td>Work full-time</td>
<td>−.10</td>
</tr>
<tr>
<td>Self-employed</td>
<td>+.10</td>
</tr>
<tr>
<td>Married</td>
<td>−.08</td>
</tr>
<tr>
<td>Black</td>
<td>+.06</td>
</tr>
<tr>
<td>Other race</td>
<td>+.06</td>
</tr>
<tr>
<td>College degree</td>
<td>−.06</td>
</tr>
<tr>
<td>Some college</td>
<td>−.03</td>
</tr>
<tr>
<td>Children</td>
<td>−.03</td>
</tr>
<tr>
<td>Female</td>
<td>+.01</td>
</tr>
<tr>
<td>High school degree</td>
<td>+.01</td>
</tr>
<tr>
<td>Work part-time</td>
<td>+.01</td>
</tr>
</tbody>
</table>

**Note:** The response variable was whether or not the individual lacks health insurance coverage. The analysis also accounted for differences in age, household income, occupation and firm size. Complete results are available from the author on request.

**Source:** U.S. Census Bureau Current Population Survey, March 2004 Supplement; author’s calculations.
health insurance plan. Lack of enrollment is an explanation for the decline in health insurance coverage in the 1990s even in the face of an economic boom.6

However, at companies offering health insurance, the enrollment rate continues to be quite high, varying between 80 and 90 percent. Because most of those who are offered insurance choose to enroll, this does not go very far in explaining the level of uninsured. The most important reason why workers lack health care coverage is that many firms do not offer the benefit. Three in four uninsured workers are not offered health insurance coverage.

A potential explanation for some firms not offering health insurance coverage is simply that healthy workers value cash compensation over insurance coverage. These workers choose firms that do not offer health insurance so they can get higher wages. Another reason could be low demand in these firms for coverage simply because the workers are younger or relatively healthy.7 A third explanation is that firms may find it too costly to offer coverage, perhaps because they’re operating with a disproportionate number of minimum-wage workers.8 Even if the employees would choose coverage, these small firms would find it hard to attract affordable group insurance coverage if their risk pool is not diverse enough, inviting an “adverse selection” that raises rates (see box titled “What Is Adverse Selection?”).

Indeed, we do see a negative correlation between offering health coverage and firm size and average wage. Three in four firms with one to nine employees where the average earnings are less than $10,000 a year do not offer health insurance coverage. In contrast, almost all firms with more than 100 employees and average earnings over $50,000 a year offer health insurance coverage. Firms with older employees are also less likely to offer coverage.9

Conclusion

Lack of health insurance coverage is on the rise and is an important public policy issue. Texas has consistently had a higher percentage of uninsured than the national average. The lack of insurance is particularly acute among Hispanics, of which Texas has a large population. Employer-sponsored insurance is the primary source of private health insurance coverage in the United States. Ironically, most of the uninsured are employed and cannot obtain insurance through the workplace. Therefore, the workplace could prove to be an important avenue through which to reduce the number of uninsured.

—Anil Kumar

Kumar is an economist in the Research Department of the Federal Reserve Bank of Dallas.

Notes

2 Another solution to the problem is to induce individuals to self-select into an insurance plan based on their health type.
5 There will be a welfare loss if the worker is more productive at the new firm due to a better job match than the existing firm. If the cost of providing health insurance coverage is less than the difference in productivity, there will be a net gain to society. However, the empirical estimate of such a welfare loss has been found to be modest at best. See Gruber and Madrian, 2002.
7 The regression analysis accounted for differences in occupation and firm size. Nevertheless, there are some potential sources of bias. For example, tax price of health insurance and actual health status are missing in the regression equation. If either of these is correlated with being a Hispanic or other characteristics, the results would be biased.
9 There are reasons to believe that workers are attracted to firms based on their preferences for health insurance coverage. See “Health Insurance Availability at the Workplace: How Important Are Worker Preferences?” by Alan C. Monheit and Jessica Primoff Vistness, Journal of Human Resources, vol. 34, no. 4, 1999, pp. 770–85.
Productivity Gains Showing Up in Services

(Continued from front page)

providers are simply doing a better job of finding ways to save time, reduce inputs and cut costs. For the most part, they’re doing it by sharpening and deepening their use of Information Age technologies—scanners, computers, lasers, the Internet and wireless communications, among others. Another contributor has been efficiency gains from outsourcing, both within the United States and abroad.

What’s happening to both manufacturing and services productivity bears watching, especially in the United States and other countries that increasingly rely on services for employment and growth.

Higher living standards come largely from gains in output per hour. Over the past two generations, for example, workers’ total real compensation—that is, wages and benefits, adjusted for inflation—closely tracked productivity (Chart 1). The implication of sluggish services productivity was ominous: Growth in post-industrial nations would slow as well-paying, highly productive manufacturing jobs gave way to relatively less productive, low-wage service jobs.

Signs of stronger productivity growth in services break through that gloomy outlook. If sustained, they should help ease concerns about the U.S. economy’s ability to keep delivering higher living standards over the long run.

Signals from Productivity Data

Unfortunately, the government’s widely reported quarterly productivity statistics provide direct measures for manufacturing but not for services. One solution to this data problem lies in deriving an implicit gauge of services productivity by comparing the quarterly data for manufacturing with that for a broad slice of the economy. We’ve chosen nonfinancial corporations. The sector includes manufacturing, mining, construction and other goods-producing industries, as well as the services providers that have been productivity laggards. It excludes the financial industry, which studies indicate surged in productivity in the past two decades.¹

The presence of manufacturing in the larger, services-heavy category provides an indirect look at relative productivity performance. If the industrial sector has been a strong spot for productivity, manufacturing should show higher gains than a sector with a large services component. If services are catching up with manufacturing, the gap between the two sectors should close.

This is precisely what the data show. Manufacturing ran ahead of nonfinancial corporations in growth in output per hour for the past 15 years, suggesting that factories have indeed been the leading source of U.S. productivity gains (Chart 2).² The most recent productivity readings show the gap between manufacturing and nonfinancial corporations

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¹ Annualized rate over the prior two years.
² Real compensation
³ Chart 1
⁴ Manufacturing
⁵ Nonfinancial corporations (services)
⁶ Percent
⁷ Indexed 1992 = 100
⁸ NOTE: Shading indicates recessions.

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Chart 1

Real Compensation Matches Productivity over the Long Run

Index, 1992 = 100

NOTE: Shading indicates recessions.

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Chart 2

Manufacturing Led Productivity Gains Until Recently

Percent

NOTE: Shading indicates recessions.
Recent productivity gains in services have not been confined to a few industries.

chart 3

Productivity and Recoveries

<table>
<thead>
<tr>
<th>Percent</th>
<th>Manufacturing (services)</th>
<th>Nonfinancial corporations (services)</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.6</td>
<td>4.8</td>
<td>3.7</td>
</tr>
</tbody>
</table>


Closing substantially in the current business cycle, one characterized by strong productivity growth (Chart 3). Productivity in nonfinancial services rose at an annualized 4.8 percent in the 10 quarters after the 2001 recession hit bottom that fall, not far below manufacturing’s 5.6 percent. In business cycles dating back to 1970, the factory sector’s advantage was usually wider, with the largest gap occurring in the previous upturn of the early 1990s. Manufacturing gained 3.7 percent in the first 10 quarters of that recovery, more than doubling the 1.5 percent pace for nonfinancial corporations.

From Airports to Architecture

Recent productivity gains in services have not been confined to a few industries. Table 1 provides a sampling of the productivity-enhancing tools service industries are using. Airlines, for example, have installed thousands of airport kiosks that allow passengers to handle routine check-ins, speeding up the process and reducing the need for ticket-counter agents. Retailers are finding self-service checkout stations are as much as 40 percent cheaper than clerks. In financial services, more than 100 million customers now use online banking. As the Internet expands to move more data faster, such jobs as computer programming and data processing are being done for less money abroad than in the United States.

Professionals are adopting the technologies, too. Increasingly powerful computers allow architects to design new buildings in cyberspace. In Hollywood, digital video gear generates spectacular movie sequences at lower costs. Airlines use virtual reality in simulators that train pilots more efficiently. The emerging field of telemedicine allows doctors, dentists and nurses to deliver their services from miles away.

The latest productivity tools in services attest to technologies’ important role in facilitating the processing, storing and sending of information. These innovations explain why the surge in service-sector productivity has shown up in the current recovery and not before. The technologies allow companies to better manage information, a staple of the service sector. By contrast, Industrial Age technologies often offered power, precision and speed in the physical realm, making them more suitable for manufacturing than services.

By their nature, Information Age technologies offer network economies—that is, they make services more efficient by connecting people, improving communications and providing information that facilitates day-to-day management. Networks give big companies an edge because the technologies are expensive and only pay off with size. A Federal Reserve study found that nonfinancial multinational corporations in the service sector saw annual productivity gains of 4.5 percent from 1995 to 2000, up from 0.6 percent the previous five years. U.S. companies have only begun to exploit productivity-enhancing technologies, suggesting the surge in services productivity will continue. Retail sales at self-checkout stations, for example, will rise from $70 billion this year to $330 billion in 2007, according to IHL Consulting Group. Retailers and warehouses will become more efficient with the spread of radio-frequency identification tags, silicon chips embedded in packaging that can store information on products’ origin, location, expiration date and cost. Wal-Mart Stores Inc., the nation’s largest retailer, will require RFID tags on merchandise from all its suppliers by the end of 2006.

Wholesale trade was an early adopter of the new management and delivery tools, and its productivity gains actually outpaced the manufacturing benchmark in 1987–97. Retailers lagged manufactur-
A closer look at retailing confirms the link between technology and productivity. The biggest gains in output per hour have been registered by nonstore retailers, a category that includes online merchants that have proliferated with the expansion of the Internet. E-commerce now accounts for $70 billion in U.S. sales, led by Amazon.com at $5.3 billion. Other top Internet marketers include computer maker Dell Inc. and Office Depot Inc. These companies are becoming masters at using the web to personalize customers’ shopping experiences, advertising related merchandise and tracking orders by e-mail. Productivity has also grown smartly among general merchandisers, a category that includes old-line department stores, as well as Wal-Mart and its discount store rivals. The productivity laggards in retail trade have been food services and wholesalers in increasing output per hour well into the decade, but they started to catch up as investments in new technologies began to pay off. From 1997 to 2003, a time of stronger productivity growth, retailers have more or less kept pace with manufacturing and wholesaling (Chart 4).

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stores and food services, which haven’t been as aggressive in adopting information technologies.

Breaking down the general merchandise category further illustrates how technology has become the dividing line in services productivity (Chart 6). Department stores have achieved little growth in output per hour since 1997. These are yesterday’s retailers, doing business much as they had in the past. The highfliers are the discount chains, led, of course, by Wal-Mart. These companies are using information technology to streamline inventory, delivery and ordering—in effect, making supply-chain management and other wholesale trade practices into business assets.

**Service Improvements Add Up**

For decades, economists worried that the productivity gap between manufacturing and services might undermine growth in American living standards. Fortunately, the threat has faded as greater efficiency in a host of services industries has added up to big overall gains. Services productivity is improving because technology has lessened the grip of Baumol’s disease. The best services companies are learning to use information technology more effectively to increase output per hour.

Services are now roughly keeping pace with manufacturing in productivity growth. Across-the-board increases in productivity—with manufacturing and services both strong—should pay off in faster growth, greater convenience and higher incomes for Americans. Surging services productivity, moreover, should help quell fears that the United States will fail to keep up with other countries as it loses manufacturing jobs. Greater productivity in manufacturing and services will help us stay ahead of the curve.

— W. Michael Cox
John V. Duca
Richard Alm

Cox is senior vice president and chief economist, Duca a vice president and senior economist, and Alm an economics writer in the Research Department of the Federal Reserve Bank of Dallas.

**Notes**

1 According to the Bureau of Labor Statistics, the data on financial corporations cover 52 percent of GDP. A broader measure, for nonfarm businesses, covers 76 percent of the economy, including financial services, but it includes mom-and-pop enterprises, for which data on hours worked and output are far less reliable than they are for the corporate sector.

2 Consistent data extend back only to 1988, the first year for which NAICS-coded productivity statistics are available. Before the switch to NAICS, the Bureau of Labor Statistics used the Standard Industrial Classification system. These earlier data show manufacturing running ahead of nonfinancial corporations since the mid-1960s. The gap grew more pronounced under the NAICS data.


4 Forrester Research Inc. found that self-service check-ins cost airlines 16 cents a passenger, compared with $3.88 for agents.

Beyond the Border

Mexico’s Export Woes Not All China-Induced

Over the past 20 years, Mexico has transformed itself into a manufacturing-for-export nation. Exports now represent 30 percent of its GDP, up from 10 percent 20 years ago. The vast majority of Mexico’s exports are manufactured goods, and almost 90 percent of them are shipped to the United States.

But these days Mexico appears to be losing ground in U.S. markets. Its share of U.S. imports peaked at 11.5 percent in 2001 and has slipped since then. Meanwhile, China’s share of U.S. imports has grown steadily and now exceeds Mexico’s (Chart 1). To Mexican officials and producers, China’s advance and Mexico’s slide are no coincidence. China’s gains, they say, are being made at Mexico’s expense.

Mexico has good reason to worry about China. Both nations emphasize manufacturing exports, and China’s export sector is growing at a mind-boggling rate. China’s exports-to-GDP ratio has risen from 2 percent to 25 percent since 1970. While China’s GDP has grown at about 10 percent a year in real terms over the past 20 years, exports have grown twice as fast. Not only is China producing more than ever for export, its access to U.S. markets is improving. This is especially true in the textile sector, where quotas on some Chinese goods are slated to expire in 2005.

Yet another reason for Mexico to worry is China’s abundance of unskilled labor. Foreign manufacturers invested in Mexico in the first place because of its comparative advantage over industrialized nations in labor-intensive sectors. China seems the logical next stop for some of these manufacturers. And some have already made the move. However, there is no official tally of how many plants have moved, how many jobs have been lost in the process or, for that matter, how many jobs have come back when the grass in China proved less green than expected.

Nevertheless, Mexico’s anxiety about China is understandable. But is it justified? Is China the problem? If China is the reason for Mexico’s slide in the U.S. market, industries in which Mexico is losing ground should be industries in which China is making gains. Industry-level data should show some correlation between Mexico’s losses and China’s gains.

Chart 2 plots the changes in Mexico’s and China’s market share in commodities (at the three-digit level in the Standard International Trade Classification) that represented over $1 billion in Mexican exports to the United States in 1999. For instance, Mexico accounted for almost 70 percent of all U.S. imports of TV sets back in 1999. Today, that market share is about 45 percent, a 25 percent-age point loss. Meanwhile, China’s share in TV sets has risen by 10 points over the same period.

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What can we learn from Chart 2? First, China is making strides in many areas important to Mexico. However, there is little correlation between China’s gains and Mexico’s losses. There are many markets in which China is gaining a lot of ground but Mexico is not losing any. In such areas as computers and electrical machinery, China’s gains are

Chart 1

China’s Share of U.S. Imports Now Exceeds Mexico’s

![Chart 1](source: U.S. International Trade Commission.

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being made at other countries’ expense. There are also many industries in which China is making no gains. Whatever is happening to Mexico in those areas cannot be explained by China. Among these commodities are vehicles, vehicle engines and parts, agricultural goods and oil products.

There are, of course, industries in which China’s gains are associated with Mexico’s losses. These at-risk sectors, which include TV sets and textiles and apparel, have several characteristics in common. First, they are unskilled-labor-intensive, which makes China a very attractive place to produce. Second, commodities in these sectors tend to have a high value-to-weight ratio, which makes transportation costs reasonable. Third, many products in these at-risk areas are standardized and can be mass produced. But notwithstanding these sectors in which Mexico is most exposed to Chinese competition, there is overall little correlation between China’s gains and Mexico’s losses.

This lack of correlation begs two questions. First, China’s market share gains have to be some countries’ losses. If not Mexico’s, whose? Second, if China’s expansion does not explain Mexico’s recent woes, what does?

The countries that appear to be bearing the brunt of China’s competition are other Asian exporters. Japan, Korea, Taiwan, Singapore, Malaysia and Thailand have lost market share in many sectors since 1999, and the losses experienced by that group of countries have been highly correlated with China’s gains. This is exactly what we would see for Mexico if China’s advance were happening at Mexico’s expense. But what explains Mexico’s recent export difficulties is not China. It is Mexico’s dependence on U.S. manufacturing activity.

When a deep manufacturing recession began in the United States in 2000, no other country was hit harder than Mexico. Intermediate and capital goods account for almost 80 percent of Mexico’s exports. Mexico is a key supplier for the U.S. manufacturing sector. China, on the other hand, remains predominantly a consumption goods exporter. This greatly mitigated the impact of the recent U.S. recession on China’s export sector and largely explains China’s and Mexico’s differing fortunes over the past three years.

Chart 3 shows the synchronicity between Mexican and U.S. industrial production. It shows clearly that it was the start of the U.S. manufacturing recession in fall 2000 that brought Mexico’s six-year expansion to a halt. Now that manufacturing activity is picking up in the United States, activity is also picking up in Mexico. And although the maquiladora industry has not fully recovered from the shock that hit in 2000, it is making a brisk comeback.

So Mexico’s recent downturn has very little to do with China. China, in fact, should be the least of Mexico’s concerns. A quick look at the long-term evolution of the nation’s real GDP per capita shows that Mexico today is no richer than it was 20 years ago. The reason for this is simple: Mexico has yet to find a way to accumulate physical and human resources the way fast-growing countries do. Its educational attainments continue to markedly lag those of industrialized nations. Its institutions do not function well, which discourages investment. What’s more, Mexico’s tax system raises little revenue, which makes needed infrastructure and education investments impossible. This is true, for instance, in the energy sector, where production and distribution are controlled by the government, as mandated by the constitution. Not surprisingly, because of Mexico’s fiscal situation, capacity is not keeping up with demand.

The bottom line is that China does not explain Mexico’s recent difficulties, except in a few specific areas. The downturn in Mexican exports results primarily from the recent manufacturing recession in the United States. And given Mexico’s litany of truly pressing problems, China should be the least of the country’s concerns.

—Erwan Quintin

Quintin is a senior economist in the Research Department of the Federal Reserve Bank of Dallas.
The Texas Coincident Index, a broad-based indicator of current economic conditions in Texas, has grown only slightly over the last several months, suggesting steady but slow economic recovery is under way.

Job growth continues to be modest. During the last four months, Texas nonfarm employment has remained below a 1 percent annualized growth rate. In September, employment grew by only 6,400 jobs—a 0.81 percent annualized increase. During the recovery, Texas employment has grown at a pace similar to the nation’s. Historically, Texas employment growth has been at a considerably higher rate than the nation’s.

Employment gains continue to be concentrated in several sectors of the Texas economy, including educational and health services, professional and business services, and trade, transportation and utilities. New sectors contributing to the overall growth are construction and financial activities. The latest data on the information sector reveal that it remains too early to judge whether employment in the sector is on the way to recovery.

The Texas Leading Index offers some hope for faster growth in the Texas economy in the coming months. Although the index has fluctuated over the last several years, the September 2004 increase is the greatest gain in the leading index since November 2003.

—Anna Berman
