

The World Rust Belts*

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Abstract

We study what happens at local level after the decline of manufacturing in six major Western countries (France, Germany, Italy, Japan, U.K., U.S.) using data starting from the 1950s until early 2010s. We document a significant heterogeneity in employment growth across local labor markets in the decades following the start of manufacturing decline, even within the group of manufacturing capitals which were more strongly affected by the country-level trend. We also document substantial changes in the mix of local economic activity, with important differences between successful and unsuccessful places. Using historical data on distance to the nearest university to construct an instrument, we also investigate the relationship between human capital at the start of manufacturing decline and employment performance in the following decades. Our estimates strongly suggest that skills are important for local reinvention.

Keywords: local labor markets, manufacturing, human capital.

JEL Classification: J21, R12, J24.

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