

The Economic Impact of the Automotive Industry on Urban Communities



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EXECUTIVE SUMMARY

This research document chronicles the importance of the automotive industry in urban communities. It is both a retrospective and a present-day account of one of the nation's most significant industries. Research was conducted using the most trusted sources in automotive and economic research, including the Center for Automotive Research (CAR), the Economic Policy Institute (EPI), the Brookings Institution, among others.

The research revealed that the automotive industry has a profound and wide-ranging affect on urban communities. An automotive manufacturing facility located in an urban area has a jobs multiplier of 3.6, meaning that for every one job at the plant, there are an additional 2.6 jobs supported in the local economy. That's contrasted against a plant located outside an urban setting with a jobs multiplier of 2.1, which translates into 1.1 additional jobs in the local economy for every one job at the plant.

More inner-city residents are hired to work in automotive plants located in urban settings, studies show. These residents often live close to the facility, and they tend to spend their disposable income where they live—thus when people live *and* work in a community, the jobs multiplier effect of the dollars spent only increases.

These urban settings were populated by blacks during the first half of the twentieth century, as six million southern blacks departed the region to take part in the burgeoning industrial sector of the American economy, of which the automotive industry was a big part. Automotive manufacturing soon became the undeniable link between blacks and middle-class prosperity. In fact, the automotive industry has become such a fixture in the black community that, according to a recent study, the percentage of blacks in the industry (14.2 percent) is much higher than their overall share of the labor force (11.2 percent).

This document demonstrates how locating manufacturing facilities in urban areas is not just good for minority communities, but it can be a sound business decision for the manufacturers. Whereas manufacturers in urban centers regularly receive tax credits and other cost-saving measures from revenue-needy municipalities, residents of these urban communities can secure well-paying jobs that help strengthen their families and their communities.

INTRODUCTION

The automotive industry has been an economic beacon of hope and achievement to many for more than a century. It has had ups and downs, ebbs and flows, but through it all, the industry has withstood remarkable challenges; it has also enjoyed extraordinary prosperity. Each step of the way, black workers in manufacturing facilities have been there. At the height of the industry, when 17.8 million vehicles were sold domestically in 2000, blacks were as much a part of the resulting economic boom as any other racial group. And similarly, as the industry nosedived, so too did blacks' grip on their middle-class-America status.

Urban areas in America, particularly in Midwestern cities, became the hub of the nation's industrialized movement. These areas grew and prospered as the industry grew and prospered. And since urban automotive manufacturing has one of the largest economic multipliers of any sector in the U.S. economy—each productive auto worker supports and creates multiple jobs in dependent industries—its success has far-reaching ramifications on the fiscal viability of the country. In fact, the industry as a whole is so influential that its growth or contraction can be detected in changes to the country's Gross Domestic Product.

The automotive industry has always represented an opportunity to gain access into middle class America. Workers' compensation has always been highly competitive, and, at least early on, it was a relatively easy process to break into the industry. There was no abundance of schooling necessary, no special license needed. All that was required was a desire to show up and perform your duties. This made for a straightforward process and allowed many newcomers to the industry, particularly urban residents, a chance to create a solid economic future for their family.

Ultimately, the auto industry became a major employer of blacks, and it was this concentration of employment that allowed blacks to be disproportionately affected by the tumultuous nature of the economy in general and the auto industry in particular. The aftershocks from the most recent recession are still being felt economically in the urban centers of America. But many of the components of a vibrant urban manufacturing base—infrastructure, a well-trained labor force, economic incentives for businesses—remain. The potential is there. This document examines that potential, the inherent benefits of urban manufacturing and its overall impact on not only the people who comprise the industry, but the neighborhoods and surrounding communities in which they reside.

THE MAKING OF A NEW URBAN AMERICA

Nine out of ten blacks lived in the South before World War I.¹ But the war offered opportunities to people who were eager to remake their lives on new ground. Northern factories were booming with orders for war materials, but there were few workers. Many U.S. men were fighting in the war, and workers from Europe could no longer cross the war-time Atlantic. Factory owners looked to blacks in the South as a new source for workers. They sent labor recruiters south to find and hire workers to move north.

Black-owned newspapers spread the news about job opportunities in the North. Articles in the *Chicago Defender*, most notably, urged blacks in the South to venture northward to take part in the expanding economic landscape. Hundreds of thousands of black people began a mass exodus from the overtly socially-oppressive South for greener economic pastures up north, and the resulting redistribution of the black population became known as The Great Migration. The *Defender* became the nation's largest black-owned newspaper and the single most important advocate of migration. The weekly newspaper was aggressively distributed throughout the South. It was sent to as many as 1,500 southern towns and cities, from Georgia to Texas. Copies of the newspaper were passed house to house in black communities to the point of being worn out.²

Authorities in the South frowned on what they considered propaganda contained in the *Defender* and oftentimes beat or even jailed anyone suspected of distributing the newspaper.³ The systemic pushback mattered little because ultimately as many as six million blacks made the move.⁴ Most of those making the trek northward (and to a lesser degree, westward) did so for the opportunities in automotive manufacturing. In 1913, Henry Ford began paying workers \$5 per day, which attracted immigrants and blacks alike. The \$5 per day wage was in all cases at least twice the typical daily wage at that time, and it was this forward-thinking gesture that helped form the foundation of middle class standards of living for blacks in America. As a result of the massive opportunities, the black population exploded in northern cities (see **Table 1**), and the automotive industry became a symbol of black economic aspirations and served as black America's first major employer. The availability of employment in automotive created for the first time a black working class that had a degree of security and upward mobility unprecedented for most people coming from the rural South.

¹ Cooper, Michael L. (1995). "The Great Migration: Bound For The Promised Land." pg. 5.

² Ibid. pg. 5

³ Halpern, Monica. (2006). "Moving North: African Americans and The Great Migration." pg. 15.

⁴ NPR Books. (2010). <http://www.npr.org/templates/story/story.php?storyId=129827444>

TABLE 1
INCREASE IN BLACK POPULATIONS OF NORTHERN CITIES, 1920-1930

City	1910	1920	1930
New York	91,709	152,467	327,706
Chicago	44,103	109,458	233,903
Philadelphia	84,459	134,229	219,599
Detroit	5,741	40,838	120,066
Cleveland	8,448	34,451	71,899
Gary, Indiana	383	5,299	17,922

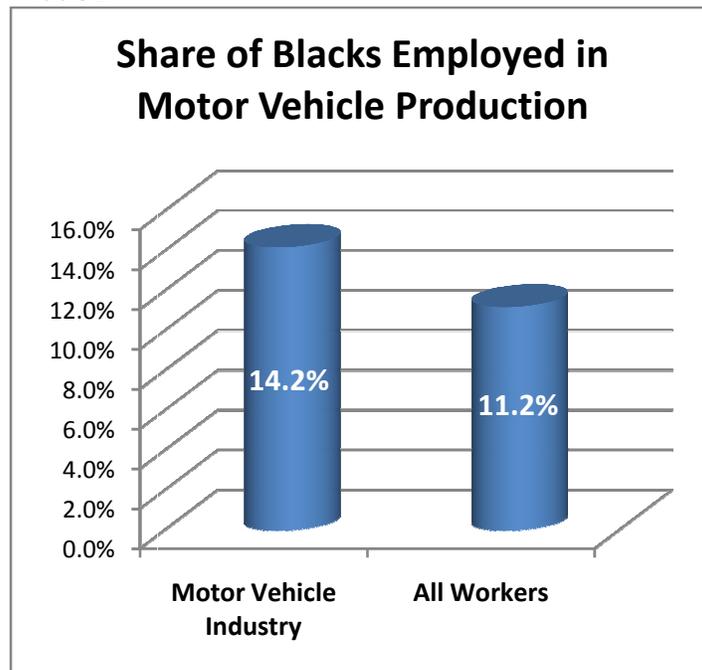
*Source: U.S. Department of Commerce,
Bureau of the Census, Negroes in the
United States, 1920-32, p. 55.*

Those blacks who secured employment in the automotive industry would send money to those family members who remained in the south, which was hard evidence of the advantages of life in a new region. Invariably, family members were reunited up north and the dreams and visions of social and economic equality became more in focus.

SIGNIFICANCE OF THE AUTOMOTIVE INDUSTRY

For nearly a century, the automotive industry has been a welcoming sector of the economy for blacks. **Table 2** below shows that the share of black workers (14.2 percent) in automotive industries is much higher than their overall share of the labor force (11.2 percent). These figures shine a bright light on just how important the auto industry has been to tens of thousands of blacks and the communities in which they reside. What's more, the wages paid to automotive workers are roughly 11 percent higher than the economy-wide average—and that doesn't include fringe benefits.⁵ As a result of the opportunities afforded them via the automotive industry, black America has been able to lead well-established, middle-class lives while building a solid economic foundation for their family.

Table 2



Source: Economic Policy Institute Analysis of Census Bureau data.

Automotive manufacturing is indeed one of the country's most important industries. The industry directly employs more than 1.7 million people, and these individuals cover the design, engineering, manufacturing, sells and services areas of the industry. When jobs from other sectors that are dependent on the industry are included, the auto industry is responsible for

⁵ Dorsey, Christian; Scott, Robert E. Economic Policy Institute. (2008) "African Americans Are Especially at Risk In The Auto Crisis." http://www.epi.org/publication/webfeatures_snapshots_20081205/.

eight million jobs nationwide—1.2 million in Michigan alone, the state with the most automotive jobs as a percentage of its labor force (or 21.6 percent of the state’s workers). These eight million people collectively earn more than \$500 billion in wages and contribute more than \$70 billion in tax revenue. Furthermore, the auto industry has historically contributed as much as 3.5 percent to the overall Gross Domestic Product (GDP).⁶ And eight months into 2012, the industry had contributed nearly 50 percent of the GDP growth for the year.⁷ These figures spell out a critically important sector of the U.S. economy and a vital ingredient to the growth and well-being of those that work in the industry, particularly in urban settings.

⁶ Center For Automotive Research. (2010). “Contribution of the Auto Industry to the Economies of all Fifty States and the United States.”

⁷ Davidson, Adam. (2012). The New York Times. “The Dinged-Up, Broken Down, Fender Bended Economic Recovery Plan.” <http://www.nytimes.com/2012/08/05/magazine/the-dinged-up-broken-down-fender-bended-economic-recovery-plan.html?pagewanted=1>

URBAN COMMUNITIES AND THE AUTOMOTIVE INDUSTRY

Automotive manufacturing facilities are located in various places throughout America. Some are nestled in rural areas while others are found in urban settings. A recent study by the Center for Automotive Research (CAR) concluded that urban plants have a greater impact on their local economy than do rural plants. Part of the reason is the jobs multiplier factor. Urban areas have a jobs multiplier of 3.6, meaning that for every one job at the facility, there are an additional 2.6 jobs created or supported in the local economy. Conversely, an automotive facility located in a rural setting has a jobs multiplier of 2.1, which translates into 1.1 jobs created or supported in the local economy.⁸

For instance, an automotive plant located in urban Detroit with 2,000 direct workers supports a total of 7,200 jobs in the local economy—or 5,200 additional jobs. This number is determined by using the 3.6 jobs multiplier (7,200 / 2,000). In a rural facility with 2,000 direct workers, 4,100 jobs are supported in the local economy—or 2,100 additional jobs outside the plant. This employment contribution has a jobs multiplier of 2.1 (4,100 / 2,000). **Table 3** below puts these examples in sharper focus.⁹

Table 3: Local and National Economic Impacts of Urban and Rural Manufacturing, 2011

Contribution to local economy	Average for selected Midwest urban locations	Average for selected Midwest rural locations
Direct employment at the plant	2,000	2,000
Local intermediate and spinoff employment	5,200	2,100
Total local employment	7,200	4,100
Jobs multiplier for local area	3.6	2.1
Total local compensation (millions)	\$564.3	\$260.1
Total taxes paid due to local employment (millions)	\$58.4	\$26.9
Total local compensation - avg/employee	\$78,368	\$63,429
Total taxes paid due to local employment/employee	\$8,108	\$6,561

Source: CAR Research

The jobs multiplier concept is a powerful component relative to expanding the reach of the automotive industry in a given community. Specifically, this “downstream employment” process has two main sources: intermediate and spinoff employment. Intermediate employment includes jobs created by suppliers who provide various goods and services to the manufacturing plants, as well as to other suppliers who provide goods and services to them.

⁸ CAR Research

⁹ Ibid

Spinoff jobs are expenditure-induced jobs created as a result of spending by the people employed in the direct and intermediate categories.¹⁰

The resulting disparity between the economic impact of urban plants and rural plants can perhaps be explained by noting that the population density in urban areas creates a certain level of business and economic activity around the manufacturing facility. Also, rural locations tend to draw their workers from a wider geographic area, and thus the dollars they earn while at work are not usually circulated back into the surrounding community.

The 5,200 additional jobs from an urban facility and the 2,100 additional jobs from a rural facility were referenced above. But what do those jobs look like? In what industry would we find them? **Table 4** breaks down those numbers for both the urban facility and the rural facility.

¹⁰ CAR Research

Table 4: Downstream Jobs (Intermediate and Spinoff) by Industry

Industry Sector	Urban, for local urban area	Rural, for local rural area
Agriculture and forestry; Other	2	0
Oil and gas; Mining	3	0
Utilities	15	5
Construction	366	208
Wood product manufacturing	4	1
Nonmetallic mineral product manufacturing	37	2
Primary metal manufacturing	26	4
Fabricated metal product manufacturing	200	31
Machinery manufacturing	36	1
Computer and electronic product manufacturing	7	0
Electrical equipment and appliance manufacturing	4	0
Motor vehicles, bodies & trailers, and parts manufacturing	224	40
Furniture and related product manufacturing	1	0
Food and beverage manufacturing	2	0
Chemicals, plastics, and rubber product manufacturing	63	15
Textiles and apparel, including leather	3	0
Paper manufacturing	5	0
Printing and related support activities	10	1
Miscellaneous manufacturing	6	0
Wholesale trade	486	243
Retail trade	463	189
Air transportation	4	0
Rail transportation	1	0
Truck transportation; Couriers and messengers	51	3
Transit and ground passenger transportation	6	0
Other transportation	6	0
Warehousing and storage	2	0
Broadcasting, publishing, telecommunications	40	3
Finance, insurance, real estate	371	42
Professional and technical services	334	26
Management of companies and enterprises	113	1
Administrative and support services	373	117
Educational services	48	5
Healthcare	416	128
Arts, entertainment and recreation	73	6
Accommodations	15	1
Food services and drinking places	252	92
All other personal services	218	67
Government (federal, state, local)	913	873
TOTAL DOWNSTREAM	5,200	2,100

Source: CAR Research

URBAN MANUFACTURING—WITHSTANDING UNCERTAINTY

As with every other sector of the American economy, the automotive industry took a tremendous blow during the recession which started in December 2007. It was the deepest and longest economic contraction since The Great Depression of 1929-32. And while many in the urban community that worked in auto manufacturing benefited greatly during the industry's unprecedented prosperity—there were 17.8 million vehicles sold domestically in 2000, the most in history—they were equally affected when the economy plummeted. Automotive sales dropped to historically low levels, both commercial and consumer credit availability contracted and two major manufacturers—General Motors and Chrysler—teetered on collapse. As a result of these and many other factors, tens of thousands of automotive workers lost their jobs.

The industry's collapse had a disproportionate effect on blacks. Between December 2007 and November 2008, nearly 20,000 black auto workers lost their jobs—a 13.9 percent decline in employment. That compares with a 4.4 percent decline for all workers in manufacturing.¹¹ This sharp decline in employment for blacks helped erode more than a half-century's economic gains and, with foreclosures skyrocketing as a result, was the chief cause of blacks replacing Hispanics as the group with the lowest homeownership rates.¹² In addition to the crippling consequence of losing their homes and the subsequent negative outcome that had on the community, the collateral economic damage spread to local businesses. Most had to close as a result, which stymied tax revenue and ultimately impacted such things as city services and schools. It was a devastating domino effect that hamstrung families and urban communities throughout the country.

WHY URBAN MANUFACTURING?

In a recent study conducted by the Brookings Institution, it was theorized that manufacturers located in densely populated urban centers are more productive because they benefit from better access to skilled labor.¹³ Urbanization and industrialization in the U.S. have traditionally worked in tandem, which furthers the premise that the best manufacturing workforce talent is located in urban areas.¹⁴ In addition to having access to a capable workforce, manufacturers located in urban areas may generate favorable tax advantages and economic development assistance. With the massive loss of jobs in most urban areas courtesy of the recession, these

¹¹ Chapman, Mary M. (2008). "Black Workers Hurt By Detroit's Ills."
<http://www.nytimes.com/2008/12/30/business/30detroit.html?pagewanted=all>.

¹² Rosenberg, Jerry M. (2010). "The Concise Encyclopedia of the Great Recession 2007-2010. pg. 3."

¹³ Brookings Institution. (2011). "The Federal Role In Supporting Urban Manufacturing."

¹⁴ CAR Research

regions are looking to induce manufacturers to establish facilities and increase job opportunities for those who need them. These urban areas also offer an abundance of land suitable for industrial use already situated near existing highways and rail lines, as well as water and airport access.¹⁵ Urban manufacturing has proven to be an important focus area for economic development, especially as the nation recovers from the recent recession and cities look to better utilize some of the facilities left dormant as a result of the economic collapse.

Despite these advantages, urban manufacturers still face difficult challenges. Many of these facilities left dormant became more than just an eyesore. When an automotive facility closes, the impact on the local community is both broad and deep. Decreased economic output, concentrated job losses and scars to the physical landscape of the urban setting can lead to serious long-term repercussions. Given the significant number of workers needed to staff an assembly plant, for instance, the new use of a site rarely employs as many workers as the original—if it ever reopens. Redeveloping automotive industrial sites in urban settings and replacing even a portion of jobs once supported can be a very long and complicated process.

Other challenges to urban manufacturing include availability of affordable land and buildings suitable for manufacturing operations; inadequate municipal infrastructure; inadequate access to funding sources for investments in land, labor and capital. These challenges can be overcome with the use of carefully-crafted policy and incentive programs at the federal, state, and local levels.¹⁶ But through it all, the sheer density inherent in the structure of an urban area supports greater business growth and provides a distinct advantage for attracting local residents into the workforce.

¹⁵ CAR Research.

¹⁶ Ibid.

CONCLUDING SUMMARY

This paper chronicles the economic impact of automotive manufacturers in urban areas. There are numerous benefits to manufacturers operating their business in urban areas, starting with the jobs multiplier concept. The extensive reach of the auto industry is such that for every one job in an urban manufacturing facility, 2.6 other jobs are supported in the local economy. Even with the recent contraction of the automotive industry, manufacturing as a whole still remains one of the core industries in the U.S.

Urban manufacturing creates a win-win situation in which inner city neighborhoods receive an economic boost and manufacturing companies have the opportunity to be more sustainable and access an underutilized but widely available workforce. Environmental sustainability is also a byproduct of urban manufacturing. It is a much more environmentally sound option to repurpose a latent urban facility than building a structure from scratch. And with studies that show many who work in urban facilities live nearby or choose to take mass transit to work, the resulting alleviation of harmful emissions is yet another hidden benefit of urban manufacturing.

While the benefits of urban manufacturing are plentiful, challenges still remain. The loss of tens of thousands of jobs in the automotive sector left many urban centers reeling. Most middle-class residents in urban areas rely on the automotive industry to earn a living, and when it sank into the doldrums of the recession, so too did the fortunes of many in the region. Almost 14 percent of black workers in the automotive industry lost their jobs during the first year of the recession, compared to 4.4 percent for all workers in manufacturing. But therein lays an inherent benefit to urban manufacturing: thousands of skilled workers remain in urban areas, and studies have concluded that urban areas produce the best skilled labor.

No other industry has done more for blacks and the urban areas in America than the automotive industry. But since it is an industry where blacks are heavily concentrated, its near collapse took a devastating toll on the economic well-being of urban areas. Through it all, however, the automotive manufacturing industry and the people that comprise it have rebounded. It remains one of the most important sectors of the American economy, and its impact in urban areas continues to be as important as it has since the early twentieth century.