

# *Flash Estimate: Impact of West Coast Shutdown*

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On October 7, we released an analysis indicating the likely impact on earnings of US persons of a 4-week shutdown of the ports on the West Coast of the United States organized by the Pacific Maritime Association (PMA). The full text of the report, which included 8 pages of narrative and a 2-page table detailing the effects on workers, producers, and consumers, was made available on our web site and summarized in a 1-page press release to various news organizations.

We concluded at that time that, assuming a 4-week shutdown, the income of US persons would be reduced by \$4.79 billion. We noted that this was a preliminary estimate, but one based on an actual analysis of base data on trade and earnings directly affected. We also noted at that time that our efforts to review the source of the widely-quoted “\$1 billion a day” and “\$2 billion a day” had failed to produce a single publicly-released analysis.

As summarized by the chronology at the end of this paper, the shutdown ended with Federal intervention that began the same day as our report was released.

## **ACTUAL IMPACT OF THE SHUTDOWN**

Based on the duration of the strike, and the available evidence, we can release a “flash” estimate of the total damage to the US economy. Such early estimates are likely to be revised, perhaps substantially, but should indicate the magnitude of the effects. In this estimate, like the one released earlier, we consider only *actual reduction in earnings* to *US persons*, which includes lost wages and other earnings to workers, consumers, and producers that reside in the United States. We estimate that the total economic damage of the shutdown was approximately \$1.67 billion, for a period of 12 days covering the shutdown.

We estimated the effects of a 12-day shutdown by taking a fraction of the 28-day impact estimated in the earlier report, for each category of persons, including workers, produc-

ers, and consumers. The fractions differ because some categories of persons—such as maritime industry workers furloughed during the stoppage—had the same reduction in earnings for each day of the shutdown. For others—notably consumers—the impact early in the shutdown was much less than it would have been if the shutdown had continued. In the following table, we summarize by category our preliminary estimate for a 4-week strike, and our flash estimate for a 12-day shutdown;<sup>1</sup> as well as provide the relevant fractions for each category.

**TABLE 1. Flash Estimate of Port Shutdown, October 2002**

	<b>Impact: 4 weeks</b>	<b>Estimated Impact</b>	<i>share of</i>	<i>day</i>
	<b>(28 days)</b>	<b>12 days</b>	<i>day ratio</i>	<i>ratio (12/28):</i>
	(in millions)	(in millions)		<i>0.428571</i>
Workers (lost wages)	\$ 84.0	\$ 36.0	<i>1</i>	
Industrial Consumers (lost US production)	\$ 2,880.0	\$ 925.7	<i>0.75</i>	
Producers (Maritime Industry Lost Profits)	\$ 48.0	\$ 20.6	<i>1</i>	
Producers (lost US exports)	\$ 1,600.0	\$ 685.7	<i>1</i>	
Consumers (higher prices)	\$ 57.6	\$ 6.2	<i>0.25</i>	
<b>Total Reduction in Earnings to US Persons</b>	<b>\$ 4,669.6</b>	<b>\$ 1,674.2</b>		

1. Although the shutdown did not last a full 12 days, we have erred on the side of increasing the damage estimate to account for pre- and post-shutdown disruptions.

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**COMPARISON WITH  
WIDELY-QUOTED  
“ESTIMATES”**

This is an indication of a very significant reduction in income to US workers and consumers. It is large enough to be presented without exaggeration. A \$1.7 billion total loss means real, live US citizens lost time, money, and the fruits of their labor. The damage of the shutdown was large and real.

However, it was not “\$2 billion a day,” or even half that. We continue to believe that these figures—largely unsubstantiated—are unsupportable. For additional evidence, we note the following:

- Despite dire warnings, only one US auto plant closed during the shutdown (the NUMMI plant), and only for a few days. A second plant closed briefly after the shutdown ended.
- Consumer electronics prices, which would be affected by a long strike, were barely affected. During the strike, major national computer firms such as Dell and Compaq continued to offer discounts and other price promotions.
- As noted in our original report, the trade figures used in the press reports varied widely, and in some cases were inconsistent with the figures for the total Asian imports of goods to the entire US.
- Many importers re-routed shipments to other ports, including those on the Gulf Coast, or purchased extra inventory in advance.
- There was no evidence of mass layoffs, mass store closings, or panic buying.
- This port shutdown meant that a portion of trade—primarily agricultural goods—was spoiled. Spoilage is a real loss of income to exporters, including farmers. However, the majority of goods were *delayed*. Delay is expensive—but it is not the same as destruction.
- The “\$2 billion a day” figure defies reality. In fact, the *entire income of all persons in Oregon and Washington states* is less than \$1 billion per day. Surely a strike affecting ports in those states is less damaging than shutting down the *entire* state. See the table below.

**TABLE 2. Total Personal Income in Two West Coast States, 2001**

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Total Personal Income, State of Washington (2001 US BEA estimate)	\$ 191,763,140,000
Total Personal Income, State of Oregon (2001 US BEA estimate)	\$ 97,813,547,000
<i>Total</i>	<i>\$ 289,576,687,000</i>
<b>Per day, billions</b>	<b>\$0.79</b>

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**MEMO: TAFT-HARTLEY  
INTERVENTION  
CHRONOLOGY**

On October 7, the President of the United States appointed a board of inquiry for the matter. The press statement accompanying this appointment included a list of excerpts from newspapers indicating economic distress ranging from actual losses of wages and goods to a potential future disruption.<sup>1</sup> The next day, the board reported to him that:

“... the parties have been unable to agree even on such matters as the length of proposed temporary contract extensions although both know that their standoff costs the nation billions of dollars. We have no confidence that the parties will resolve the West Coast ports dispute within a reasonable time.”<sup>2</sup>

With this finding by the board, the President directed the Attorney General to seek an injunction ordering the ports to resume operation, stating “This lock-out, if permitted to continue, will imperil the national health and safety.”<sup>3</sup>

On that same day (October 8), Judge Alsup in San Francisco indicated that the US Government had proved its case that the shutdown imperiled the national health and safety, and ordered a resumption of work and end to the lock-out.<sup>4</sup> President Bush stated then “The crisis in our Western ports is hurting the economy. It is hurting the security of our country, and the federal government must act. Americans are working hard every day to bring our economy back from recession. This nation simply cannot afford to have hundreds of billions of dollars a year in potential manufacturing and agricultural trade sitting idle.”<sup>5</sup> The next day, work resumed at the ports for a “cooling off period” that may last 80 days.

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1. For example, “more than half of the country’s beef, pork and lamb export products go through West Coast ports, according to the U.S. Meat Export Federation. George’s Inc., a poultry and egg company based in Springdale, also is being affected. (Arkansas Democrat Gazette, October 3, 2002);” “Millions of dollars in produce, fish, meat and poultry are rotting on docks and ships. [unattributed]” and “All Americans may soon begin to pay sharply higher prices for household goods. [unattributed]” Found at [www.whitehouse.gov](http://www.whitehouse.gov), news release 20021007-5.
  2. Found at MSNBC.com, which reported the text on October 8, although indicating that the text was dated October 10, from San Francisco.
  3. Text of letter found on MSNBC.com
  4. The four-page order is available on the 9th Circuit, Northern District web site.
  5. *New York Times*, October 9, 2002; found at Yahoo News