Globalization:
A Threat to the U.S. Labor Market?

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Topics for Today

- What is globalization?
  - Trade (in a broad sense) in an international marketplace.
  - Examples

- Is globalization a threat?
  - Should we worry about the trade deficit?
  - Impact on U.S. labor market.
Lou Dobbs: Fear of Foreign Competition!

“Will anchor for $3.00/hour!”

Coming soon on CNN

Luis Dobbs Esta Noche Weeknights 6-7pm
Forgot to mention:

Disclaimer: The views expressed here are not necessarily those of the Federal Reserve Bank of Atlanta or the Federal Reserve System.
Buying American?

65% made in America

Ford Mustang

90% made in America

Toyota Sienna

Hard to distinguish: American vs. Foreign made goods!
U.S. Trade Flows (exports + imports of goods and services) as % of GDP

Recessions in yellow!

More trade is associated with economic expansion!

Trade expanded 3 times faster than GDP, by a factor of 150(!) since 1950
Is the trade deficit a threat to the U.S.?

U.S. Trade deficit in % of GDP

2006: $760b deficit!

“Exploiting China!”

“Exporting America”
Most of the expansion in the trade deficit occurred during the roaring 1990s!

- Trade deficit expands
- Unemployment drops

Since 2000
Before 2000
1990s: Surge in imports and manufacturing output!

2000-2002: Manufacturing drops, imports slow

Since 2000: Both recovering!
Loss of manufacturing jobs: Only in the U.S.?

Manufacturing jobs: 1993 normalized to 100

3m jobs lost in the U.S.

A giant sucking sound ... in Mexico?

It’s a worldwide phenomenon!
The real culprit: Productivity

Output per hour in Manufacturing

Overall Economy
Productivity: Producing more with less is good for the economy!

Excerpts from a letter of New York Governor Martin van Buren to president Jackson, January 31, 1829:

The canal system in this country is being threatened by the spread of a new form of transportation known as “railroads.” The federal government must preserve the canal system for the following reasons:

If canal boats are supplanted by “railroads,” serious unemployment will result. Captains, cooks, drivers, hostlers, repairmen and lock tenders will be left without means of livelihood, not to mention the numerous farmers now employed in growing hay for horses.

Boat builders would suffer and tow-line, whip and harness makers would be left destitute.

"[R]ailroad" carriages are pulled at the enormous speed of 15 miles per hour.

The Almighty certainly never intended that people should travel at such breakneck speed.
How about manufacturing wages?

Inflation-adjusted compensation

Compensation in all sectors

Compensation in manufacturing

High-paying manufacturing jobs stay in the U.S.!
How about outsourcing of service jobs?

The U.S. has a persistent surplus in trade of services!

Trade in services: % of GDP

- Exports
- Imports

The chart shows the percentage of GDP contributed by trade in services from 1988 to 2006, with a notable increase over time, particularly after 2000.
Effect on Service Industry

- 22 million jobs created during the 1990s
- 7.3 million jobs created since 2002

Graph showing the growth in various service industry sectors from 1988 to 2006.
Conclusion

- Globalization – Trade in the international marketplace
- Trade increases during economic expansions
  - Most of the expansion in the trade deficit occurred during the roaring 1990s!
- A look at employment data
  - Trade deficits occur when unemployment is low!
  - Manufacturing employment: Trade is not the threat, Productivity is!
  - Outsourcing is a red herring.
- View the global economy as an opportunity, not a threat.
I am looking forward to your questions and comments!