



The World Market: Trade Negatives

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**Federal Reserve Bank of St. Louis
Annual Teachers' Conference**

Louisville: August 2, 2005

Little Rock: August 3, 2005

St. Louis: October 25-26, 2005

Memphis: October 27, 2005

Negatives of trade

- Does trade cause higher unemployment?
 - Temporarily, yes. Trade can temporarily changes employment but doesn't permanently alter the unemployment rate.
- Does trade depress the wages of low-skilled U.S. workers?
 - Yes. Trade permits us to effectively import unskilled labor.
 - Trade can also depress the wages of higher skill groups, if it is easy to import their labor product.

Negatives of trade

- Does trade cause dislocation?
 - Yes. Many workers are temporarily (sometimes permanently) unemployed by changes in industry structure.
 - The usual solution is to provide people with training or other benefits to compensate them.
 - This works a lot better in economic models than in the real world.



Negatives of trade

- Does trade ruin the environment?
 - On the contrary, richer people tend to want to have cleaner environments.
 - Anyone who has traveled around the world knows that developing and formerly communist countries have the worst environmental conditions.
 - Rich countries have the best conditions.



Negatives of trade

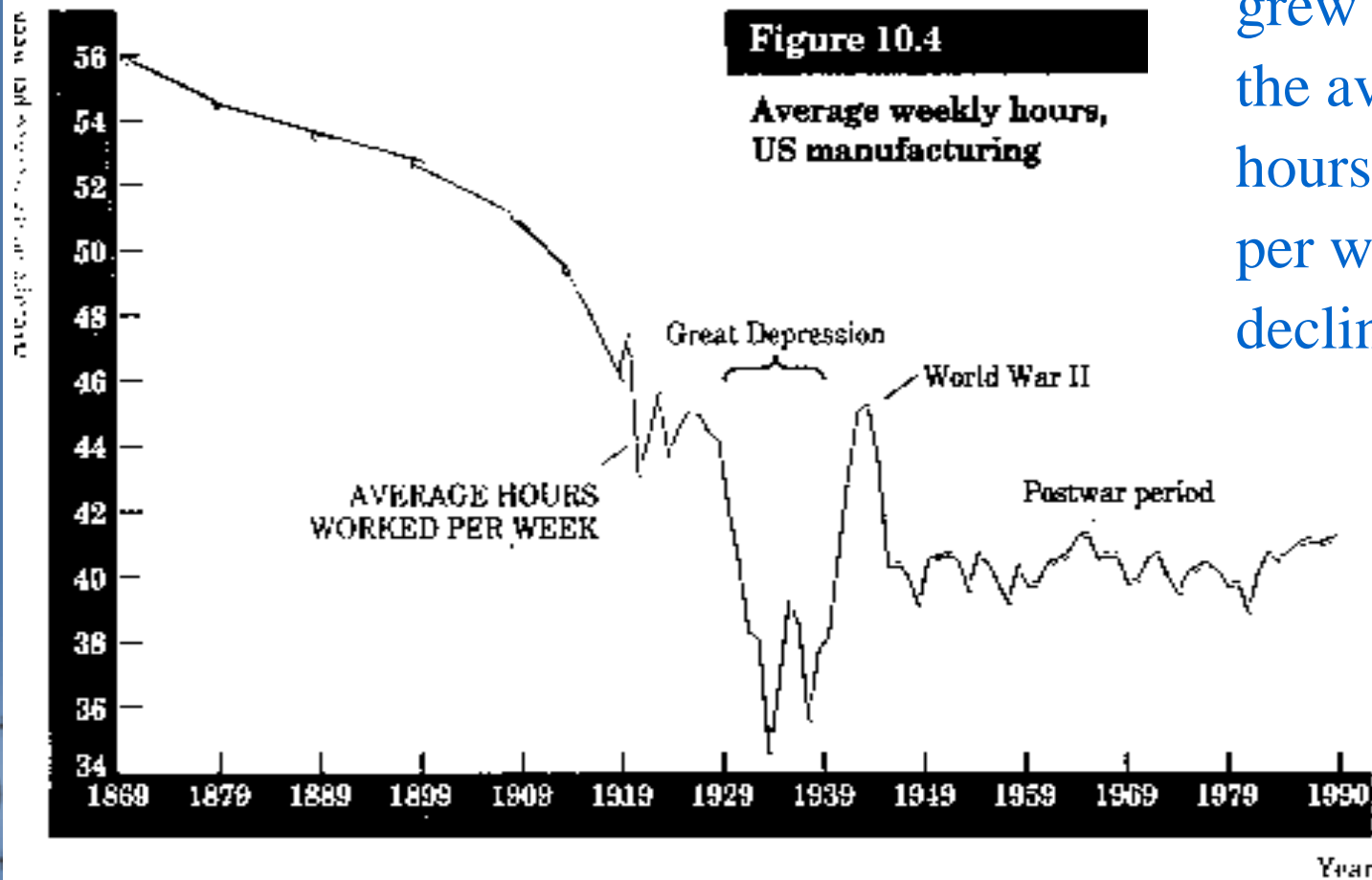
- Does trade lead to child labor?
 - Again, child labor typically declines when societies get rich enough to do without it.
 - Most people think that child labor ended in the United States because of laws passed against it.
 - On the contrary, the laws against child labor were passed because it was no longer necessary for most people.
 - It is probably simplistic to say that child labor exists solely because societies are poor, but getting richer would probably help.





Rich people tend to work shorter hours

- As the U.S. grew richer, the average hours worked per week declined.

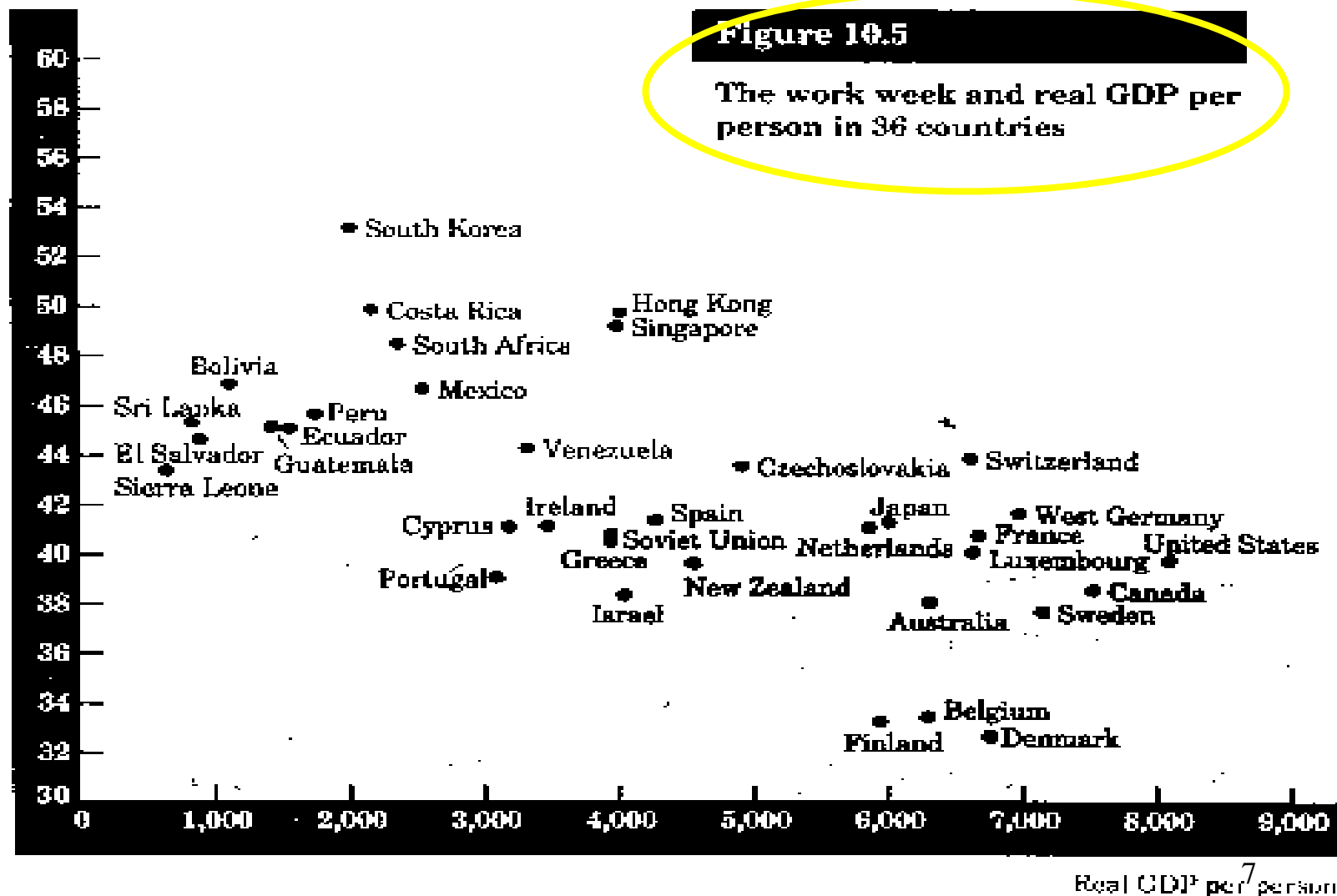




Rich people tend to work shorter hours

Figure 10.5

The work week and real GDP per person in 36 countries



Real GDP per person

Negatives of trade

- An analogy: Trade is often compared to technological progress.
- Technological progress can lead to dislocation and anxiety, but ultimately raises everyone's standard of living.
- But what about outsourcing? David Ricardo never said anything about outsourcing.





Outsourcing vs. trade in goods

- Outsourcing is trade in manufacturing services.
- The arguments for and against outsourcing are really no different than the arguments for and against trade.
 - Outsourcing is trade in intermediate goods.
 - There is no difference between Dell buying computer boards in Thailand and outsourcing technical support to India.
 - Outsourcing makes goods cheaper but it also displaces some U.S. workers.



Summary of trade negatives

- Trade can definitely lead to dislocations and unemployment, but it does not permanently raise the unemployment rate.
- Trade does not lead to environmental destruction or child labor.
- Trade has many of the same effects as technological progress.
- Arguments about outsourcing are really arguments about trade.



Thanks for your attention.
The End