

International Trade & the Election

- ➡ Why do we trade?
- ➡ Is outsourcing good or bad?
- ➡ What are trade deficits?
- ➡ Problems with trade: Inequality and jobs.

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Federal Reserve Bank of St. Louis
September 29, 2004

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Outline of today's talk

- ➡ Why do nations trade?
- ➡ What is a trade deficit?
- ➡ Does trade create or destroy jobs?
- ➡ Trade negatives: Inequality & dislocation



Why Do We Trade? The Simple Story

- ☞ Why do kids trade in the lunchroom?
 - They trade for what they want but don't have.

- ☞ How does this change when we add in production?
 - We trade for what we want and can't produce as cheaply domestically. For example, we can't produce oil as cheaply domestically as we can buy it abroad.



Reasons for Trade

- ➡ Comparative advantage
- ➡ Increasing returns to scale
- ➡ Trade increases competition



Reasons for Trade

- *Comparative advantage is not absolute advantage.*
- Absolute advantage is the ability to do something more efficiently - with less labor or resources - than another country.
- Comparative advantage is what you do relatively well - or less badly.
 - Bill Clinton has a comparative advantage in golf when compared to Michael Jordan.



Reasons for Trade

- A country always has a comparative advantage in something. It must.
- The United States tends to have a comparative advantage in industries intensive in skilled labor, land, and capital.
 - This doesn't mean that every skilled labor/capital intensive job will end up in the United States.



Reasons for Trade

☞ Increasing Returns to Scale

- Some industries, such as shipbuilding, are only efficient at very large scales. For example, one country may specialize at shipbuilding.
- Most countries only have a market for a few large civilian airliners. National production would be very inefficient.



Reasons for Trade

☞ Imperfect Competition

- International trade reduces national monopoly power in industries like automobiles, airlines, electronics, etc
- U.S. auto manufacturing became much better when exposed to serious foreign competition in the 1970s.

What about outsourcing?

- ☞ 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. It makes goods cheaper but it also displaces some U.S. workers.

What is a trade deficit?

- A trade deficit means that U.S. exports are less than imports. The rest-of-the-world ships us more real goods and services than we ship them.
- Foreign countries are willing to do this because we give them *real* or *financial assets* in return. This is called “dissaving” or borrowing money.
- A trade deficit is an exchange of assets for goods and services. It is borrowing from abroad.

Negatives of trade

➤ Higher unemployment?

- No. Trade can temporarily change employment but trade doesn't permanently change the unemployment rate.

➤ Depressing wages of low-skilled U.S. workers?

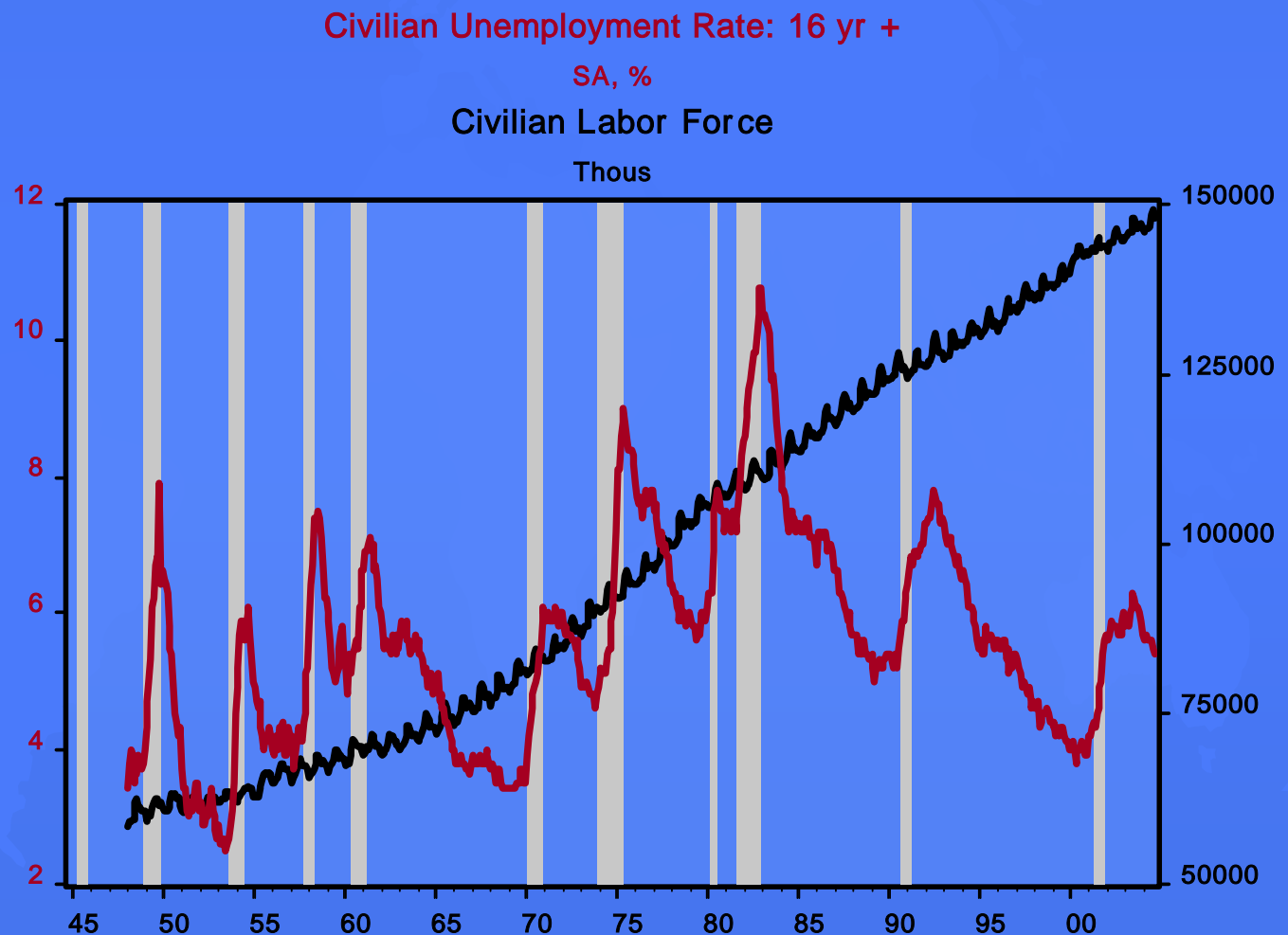
- Yes. Trade permits us to import unskilled labor.

➤ Dislocation?

- Yes. Many workers are temporarily (sometimes permanently) unemployed by changes in industry structure.

Unemployment & Labor Supply

- ◆ Labor supply determines employment in the long run.



Source: Bureau of Labor Statistics /Haver Analytics



Key Points to Remember

☞ Reasons for trade

- Comparative advantage
- Increasing returns to scale
- Trade increases competition in the market.

☞ Trade is good because it provides more and different consumption, not because it creates jobs.

☞ Trade neither creates nor destroys jobs in the long run, on balance. (Approximately.)



Key Points to Remember

- A trade deficit is an exchange of assets for goods and services. It is borrowing from abroad.
- International trade does not benefit everyone. In particular, low-skill U.S. workers may lose out.
 - The usual response to such dislocations is to provide aid and job training to dislocated workers.
 - Trade barriers to “save” these jobs often end up being much costlier than “buying out” the dislocated workers.



THE END