"Globalization, Trade, and the 'Magically' Reappearing Jobs"

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The *Lexington Herald-Leader* ran a front page story a few weeks ago about job gains and losses by various companies in the Bluegrass.[1] Job gains in biofuels and manufacturing were noted along with job losses in banking. This ebb and flow of jobs reminded me a lot of what happens with increased globalization and trade, i.e., that the latter cause substantial changes in our mix of jobs. Unfortunately, discussions of increased international trade seem to focus on jobs "lost" to foreign nations. Somehow, though, jobs always seem to reappear. But it's not by magic, but by the nature of an economy that engages in trade.

To illustrate this, let's first look at some figures. There is no doubt that the U.S. economy has become more "international." Thirty years ago, imports made up about 9% of the total value of the goods and services in the U.S. economy. That has increased steadily and today they are nearly 17% of the economy . . . almost a doubling! However, employment in the U.S. economy has steadily grown, too. In 1977, roughly 90 million people were employed in the U.S. Today, employment is over 145 million. In 1977, about 58% of the population over age 16 were working. In 2007, this figure is 63%. The unemployment rate hovered around 7% in 1977. It went up and down over the ensuing 30 years, but has been below 7% for over a decade and now stands at 4.7%. The bottom line is that, through the steadily increasing flow of imports, *people keep getting jobs*. Generally, they're good jobs, too. Wage and salary income increased rather remarkably during this time period for college graduates, though real earnings has not changed much for those with only high school degrees. Analysts attribute most of these trends in earnings, though, to the increased premium put on college-related skills brought on by the high-tech revolution, not to international trade.

International trade changes the mix of jobs and doesn't eliminate jobs. That trade changes the mix of jobs is no surprise. Jobs are lost to the foreign companies from which we import. The new jobs come from increased production of goods that we export. There must be a link between the two. Exports are the way we pay for imports. Foreign firms that supply us with imported goods expect something in return. Yes, we pay them in dollars, but you can't eat dollars bills . . . or numbers in a bank account. Ultimately, they expect goods and services in return. Thus, our economy produces less of the goods imported but must necessarily produce more for export. To put it in a glib way, *for every import there is an equal and opposite export*. The only way around this is if we pay later, i.e., foreigners give us loans. But this just means that we'll gear up for future export production.

The mix of jobs in our economy changes for many reasons, though, besides the shifting pattern of international trade. In fact, it's quite commonplace. For example, in the U.S. economy during the 1990s, about 7.5% of all jobs were destroyed annually . . .

but more than 8% were created annually. Also, the industries where jobs are located have changed substantially. As is well known, manufacturing employment has declined, from around 18 million in 1977 to about 14 million now. However, service sector employment has boomed, growing from roughly 60 million in 1977 to around 115 million today. Some of these changes are due to international trade, but there are many other reasons. For example, technological change creates new goods and production processes and makes others obsolete; changing relative prices of goods causes consumer buying patterns to change and induces the opening of some businesses and the closure of others; rising consumer income can have similar effects.

These changes are the result, though, of firms trying figure out what people want, how to produce it, and whether to produce it or leave it for other (possibly foreign) firms to do. It's this process of firms continuously seeking to produce goods and services of value to consumers and efficient ways to do so that ultimately generates prosperity. And this is the process generated by open and competitive markets. It really doesn't do any good to try to protect us from international trade by mandating that certain (domestic) firms produce certain goods with a pre-specified number of workers. This only ends up getting things made that we don't like or cost a lot. On top of that, our economy consistently does well in generating new jobs to replace any lost to international trade, though a case can be made for temporary government assistance to laid-off workers while finding a new job.

The changing mix of jobs in an economy is somewhat of a common occurrence and is the natural result of competition among domestic and foreign firms in a market economy. And it is this process that ensures that jobs reappear after old ones are lost.

[1]"Economy Takes Jobs Away, Gives New Ones," *Lexington Herald-Leader*, October 16, 2007, p. A1.

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