CATO INSTITUTE

KEY POINTS:

"JOB LOSES AND TRADE : A Reality Check" by Brink Lindsey, Trade Briefing Paper no. 19, March 17, 2004 (http://www.freetrade.org/pubs/briefs/tbp-019es.html)

Jobs churn constantly. Large numbers of jobs are being shed constantly, even in good times. According to data compiled by the U.S. Department of Labor's Bureau of Labor Statistics, total U.S. private sector employment rose by 17.8 million jobs during the decade from 1993 to 2002. To produce that healthy net increase, a breathtaking total of 327.7 million jobs were added, while 309.9 million jobs were lost. In other words, for every one new net private-sector job created during that period, 18.4 gross job additions had to offset 17.4 gross job losses. In light of this fact, it is impossible to give credence to claims that job losses in this or that sector constitute a looming catastrophe for the U.S. economy as a whole.

The growing share of good jobs. The ongoing growth in total employment is frequently dismissed on the ground that most of the new positions being created are low-paying, dead-end "McJobs." Yet management and professional specialty jobs have grown rapidly during the recent era of globalization. Between 1983 and 2002, the total number of such positions climbed from 23.6 million to 42.5 million – an 80% increase. In other words, these challenging, high-paying positions have jumped from 23.4% of total employment to 31.1%.

International trade has had only a modest effect on manufacturing's decline. Manufacturing's share of GDP declined from 27.0% to 13.9% between 1960 and 2002. If trade had been in balance throughout that period (i.e. no trade surplus or deficit), the estimated decline would have been from 26.5% to 16.0%. The basic picture thus remains the same even when the effects of trade are eliminated: a steady, relentless drop in manufacturing's share of economic activity. The reason for this drop is U.S. manufacturing's superior productivity: between 1980 and 2002, output per hour in the overall U.S. nonfarm business sector rose 50%, while manufacturing output per hour shot up 103%. Since this faster productivity growth has not been matched by a corresponding increase in demand for manufactured goods, the result is an ongoing shrinkage in manufacturing's share of the total U.S. economy.

Don't blame imports for lost manufacturing jobs. Between 2000 and 2003, employment in the manufacturing sector experienced a 16% decline. But during that period, manufacturing imports rose only 0.6%. Meanwhile, manufacturing exports fell by 9.6%, accounting for 91% of the growth in the manufacturing trade deficit. Even more important, U.S. demand for manufactured goods was rocked by a 14% decline in total fixed nonresidential investment between 2000 and 2002. It was the worsening domestic market and softening overseas markets that really hurt U.S. manufacturing jobs, not foreign competition. Trade liberalization and the expanding overseas markets and commercial opportunities it brings to U.S. exporters would be a shot in the arm for manufacturing employment.

The U.S. is an IT net exporter. The U.S. runs a trade surplus in the IT services most directly affected by offshoring. In the categories of "computer and data processing services" and "data base and other information services," U.S. exports have risen from $2.4 billion in 1995 to $5.4 billion in 2002, resulting in the U.S. trade surplus in these services expanding from $2.1 billion to $4.2 billion. If politicians declare war on outsourcing, U.S. producers and workers will suffer the most.