Keynote Address: Economics and Public Issues Conference

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The Georgia economy has been doing pretty well—having just added 27,000 jobs over the past year and an unemployment rate of 3.8 percent, one of the lowest in the country (3.5 percent is the record low). I would like to talk a little bit about economic integration; in particular, I would like to briefly discuss what I think are The Unseen Benefits of Economic Integration for the U.S.

The economies of the world, of both advanced and developing countries, have changed significantly as the world has become increasingly integrated. Lower barriers to trade, deregulation, and the increasing rate of technological advancement have all worked to expand international trade at a faster pace than GDP now for decades. Not surprisingly, the increasing integration of the U.S. economy with the rest of the world has become a subject of concern to many Americans. Dimly sensed and understood events in different parts of the world now appear to have a major impact on U.S. companies and U.S. workers. Corners of the economy that once appeared to be immune to pressures from the outside world now seem to be buffeted by competition from far-away countries.

Concerns about global integration are not new to Americans. In the 1980s, there was a sharp debate over why U.S. companies were losing global market share in traditional assembly line goods, like automobiles and appliances. Before that, in the 1970s, Americans were shocked to discover the vulnerability of the U.S. economy to the international political economy of the oil industry. In fact, this debate has been a fixture in this country since its founding.

Americans once lived a much more self-sufficient existence on farms and in small towns. In the late 19th century, the increasing integration of farms and small towns with global agricultural and financial markets was one of the key sources of political division in the country. Unfortunately, the discussion of these issues today tends to highlight only the concerns and risks of economic integration. We read in the newspapers about Americans who lost their jobs to foreign competition, but not about Americans who work making goods and services that are purchased by foreign consumers.

Commentators draw attention to the dependence of U.S. firms on foreign suppliers, but ignore the fact that millions of Americans benefit from the lower costs those foreign suppliers provide. Pundits tell scary stories of foreign corporations controlling the wealth of the United States—and neglect to mention the increasing American ownership of those supposedly “foreign.”
corporations. What I would like to talk about today is some of the important benefits of the integration of the U.S. economy with the rest of the world. There is no denying that such integration creates costs, but those have been well documented. The benefits have not.

Let me start by saying that, although I will talk about the number of American jobs supported by trade and foreign investment, the true benefits of economic integration do not come primarily from increasing the number of jobs in the economy. A successful economy directs people into the jobs that make the best use of their productive abilities—that is, into the jobs that create the most value for consumers. And this is precisely how economic integration, through trade and investment, benefit an economy.

Americans are anything but economic isolationists. We are, by far, the number one importer of goods and services in the world. Two-thirds of our imports enter duty free, and the average U.S. tariff rate is less than 2 percent (1.7 percent). We buy cameras from South Korea, toys from China, shirts from Bangladesh, computer software from India.

Our grocery stores are practically international food bazaars. Potatoes from Idaho, beef from Texas, and peanuts from Georgia sit next to bananas from Costa Rica, melons from Mexico, and coffee from Kenya. Americans certainly have a penchant for importing, but we are also integrated into the world economy in many more ways. For example, the U.S. is the leading exporter of goods and services in the world. At just over a trillion dollars a year, U.S. exports alone would make the U.S. the sixth largest economy in the world. The growth of foreign demand for U.S. products is an important source of growth for the U.S. economy. Prior to the global economic downturn, the growth of U.S. exports was responsible for around a quarter of our growth in GDP. And, over the past three quarters while the U.S. economy has grown 5.6 percent at an annual rate, the fastest three quarter growth in nearly 20 years, exports contributed about 1.1 of these percentage points—or 20 percent of the GDP growth.

To a significant degree, those developing countries that have been active participants in the global economy have grown more rapidly than higher-wage industrial countries. It is, therefore, not surprising that U.S. exports to low-wage countries (defined as countries with average wages less than half of average U.S. wages) have grown faster than exports to intermediate-wage or high-wage countries. In fact, trade with lower-wage countries now accounts for 45 percent of total U.S. exports.

We have estimated that exports of goods and services supported directly and indirectly about 12.5 million American jobs in 2003. This was 11.4 percent of our total private employment last year. There is another, less obvious, way that American jobs are supported by trade. Roughly 45 percent of our $1.5 trillion of imports are intermediate and unfinished imports—goods and services that are used by American workers to produce finished goods and services. It is no longer appropriate to even think about trade the way that we used to: where increasing imports always mean increasing competition for U.S. companies and U.S. labor. Even in the short run, unnecessary trade barriers may wind up costing more American jobs than they protect.

In fact, these imported intermediate and unfinished goods and services even help U.S. companies compete in global markets. Nearly 15 percent of the value of U.S. merchandise exports is made up of previously imported goods and services. This might even be characterized by foreign countries as "offshoring to America." Economic integration also goes beyond the international trade of goods and services. Just as American multinational companies often have affiliates in foreign countries, many foreign multinationals have affiliate companies in the U.S. For example, in the State of Georgia prominent U.S. subsidiaries of foreign companies include...
As President Bush said, some politicians in Washington want to respond in old, ineffective ways. They want to increase federal tax. They want to build up trade walls and isolate America from the rest of the world—but economic isolationism would threaten the millions of good American jobs that depend on exports.

We must pursue a confident policy of trade. Millions of American jobs depend on our goods being sold overseas; and foreign-owned companies employ millions of Americans here at home. We owe those workers our best efforts to make sure other nations open up their markets and keep them open.

In fact, with a quarter of a million workers employed by foreign subsidiaries, Georgia now ranks 9th among U.S. states (7.1 percent of Georgia's private-sector workforce). A third of these jobs are even in manufacturing.

For the U.S. as a whole, the most recent data shows that foreign corporations support a payroll of $350 billion and both directly and indirectly support the jobs of 9.9 million Americans. This was 8.8 percent of our total private jobs.

There are even a quarter of a million American taxpayers living abroad that reported earned income from a foreign corporation. Combining the American jobs supported by exports with the American jobs supported by foreign corporations (taking out the 8.6 percent of U.S. production by foreign corporations that is exported), both in the U.S. and abroad, it is fair to say that foreign consumers and corporations combine to support 21.6 million American jobs. This is nearly 20 percent (19.5 percent) of the private sector jobs in the U.S.