

# Impacts of globalization on the us jobs market economics essay



The Globalization can be defined as the tendency of increasing the connectivity and the interdependence of the world's markets and businesses. Over the past 60 years, the globalization has increased international trade impacting businesses and economy. A lot of developing countries have known a sustained growth rate of 7 to 10%. Thirteen countries including China have known more than 7% growth per year for 25 years or more.

Until about a decade ago, the impacts of globalization on the distribution of jobs were largely moderated. On average, developed economies were growing at a respectable rate of 2.5 percent, and in most of them, the variety of employment opportunities at various levels of education seemed to be increasing. But as the developing countries became larger and richer, their economic structures have changed. Now, developing countries are able to deliver high-quality, low-cost goods and services. This climb is a permanent, irreversible change. With China and India which represent together an average of 40% percent of the world's population, the structure of economy has changed. Emerging countries are going to have more and more influence on the global economy.

## **1.2 US and Globalization**

During the early postwar period, at least through the late 1960s, a broad consensus in the U. S. favored liberal international trade policies. The U. S. took a leading role in promoting the opening of world markets, in sharp contrast to its protectionist periods in the 19th century and the 1930s. In the financial arena, the U. S. decision to allow the value of the dollar to be

determined in the free market played a role in the globalization of currency markets and ultimately other financial markets.

However, by the 1990s, the optimistic picture of globalization has been challenged. Indeed, the weak productivity growth after 1973, slow wage growth, and increasing inequality, have conducted citizens to question themselves about real impacts of globalization.

The globalization debate has raised several questions about the impact on employment market:

What are the impacts on US job market?

How does the Globalization impact on the workers and the distribution of wages and income?

What are the policies which enable countries to take advantage of the gains from globalization?

## **II – Impact of globalization on the U. S job market**

### **2. 1 Perception of the impacts of globalization on the labor market**

It is interesting to know what the public perceptions about globalization are. In the book *Globalization and the Perceptions of American Workers*, Kenneth F. Scheve and Matthew Jon Slaughter make an analysis based on a database they assemble from the public Opinion databank at the Roper center for public opinion research covering more than 500 questions and answers. This research points out a lot of things. First of all, thanks to these questions and answers, we notice that most of the Americans think that trade generates

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the benefits predicted by economics on a consumption side. For instance, 58% of Americans in the study strongly agree on the following statement: “because of imports from other countries, American consumers have a larger selection of goods and products to choose from”.

However, a majority of Americans thinks that trade generates labor-market costs in job destruction and wage pressures. Indeed, in the study, 68% of the sample thinks that trade agreements with low-wage countries such as China and Mexico lead to lower wages for Americans while 19% supposes that this phenomenon implies higher wages. (Source: Harris for US News and World Report, April 2000). But surprisingly when we ask to American people if expanded trade leads to an increase or decrease in the number of US jobs, they are equally divided. A large number of surveys also show that, when asked a question mentioning both benefits and costs to trade, a plurality or majority of respondents chooses the answer emphasizing the costs, not the benefits.

Last but not least, American opinions are characterized by low amounts of information and by uncertainty.

Another book written by Jack W. Plunkett “ Plunkett’s Companion to the Almanac of American Employers 2008: Mid-Size Firms”, insists on the impact of globalization for job seekers. The author points out the fact that outsourcing is booming and this phenomenon has consequences on US employment. More and more products are provided by emerging countries like China, Thailand, Indonesia, etc. and this fact implies fewer pure manufacturing jobs available in the United States.

## **2. 2 Impacts of imports**

With Globalization we can see that the world is more and more open. Thus companies are willing to find the cheapest way to produce their goods or the cheapest countries where they will have employees in order to maximize their profits. As United States of America is a developed country, American people have a high standard of living and therefore they have an average salary which is higher than the global average. Due to that it is cheaper for a company to produce outside of the country and then import goods or services. That's why there are more and more imports in the United States of America.

But the critical flaw is the way in which the prices of imported goods are measured. The statisticians implicitly assume the prices of imports are similar to those for domestic products. In all actuality, the prices for many imported goods are lower than the comparable products produced in the United States because an increasing share of imports are produced in low-cost countries like China. This price differential is not currently measured by the statistical system.

The rise of imports lead to more and more difficulties to sell American products and it lowers profits of American firms. Moreover the balance of payments will be in deficit because there will be more importations than exportations and thus the US dollar will be attacked. So that's why US government should watch about the amount of importations.

## **2.3 Impacts on Consumption and employment**

As we just have seen before United States of America is a developed country and American people have high standard of living and therefore they have an average salary which is higher compared to the global average. So they have a quite interesting purchasing power.

We also know that thanks to imports the prices are lower because it costs less to produce in a country with lower labor cost or with fewer regulations.

With these two statements we can say that imports are very profitable for the consumption because it will boost them. They will have a huge purchasing power and importations of goods (or services) will challenge American goods and therefore prices will lower.

But one omission from this statement is the effect of trade on the relative prices paid by skilled and unskilled workers and by low- and high-income households. Since the goods produced by these countries are generally at the low end of the quality spectrum and include essentials (especially clothing from China), it may well be that the benefits of lower prices for these imported goods due to trade are disproportionately large among low-income individuals. If so, analyses of trade would have to take into account of this relative consumption price effect as well as the relative wage effect.

We also can add that the competition may force US companies to take measures concerning their payroll. USA may have issues regarding employment because as the competition becomes harder and harder US companies may be willing to reduce their wages or payroll. In order to do so <https://assignbuster.com/impacts-of-globalization-on-the-us-jobs-market-economics-essay/>

they may reduce their number of employees to cut the wages or they may think about externalization outside of the country that will lead in both cases to an increase of unemployment. This unemployment will mainly concern low and middle classes and what we call “ blue collars”.

## 2. 4 Impact of globalization on wages

For years, economists said that globalization did not have a large effect on wages and unemployment in the U. S. but nowadays, they associate more and more globalization with income stagnation, unemployment, job losses or decreased incomes.

Globalization has impacted the incomes of U. S. workers in several sectors. In manufacturing, industries compete with low-cost imports from abroad, so workers can expect to see their income decreasing. The opposite case is for instance, in government jobs in which trade almost doesn't intervene, there has been a net job growth. China plays a large role in the impact of globalization on the unemployment in the U. S. In a study lead by David Autor, David Dorn and Gordon Hanson, they found that the regions in the U. S. where companies are competing most directly with China, the unemployment rate was higher and the wages lower than in other places (from 1990 to 2007).

Globalization and in particular trade with China is having a huge impact on U. S manufacturing workers. In the sectors hit by the Chinese competition, wages fall and some people stop looking for jobs.

**Some figures:**

The federal minimum wage level in the U. S. is \$7. 25 per hour. A 40 hour work week means \$290 a week gross for the lowest full-time workers in America. In Shenzhen and Shanghai, two of the highest earning cities in China, minimum wage are respectively \$238 and \$230 per month.

The issue of globalization is to bring together countries with huge differences, in this case in terms of average incomes. If the U. S. companies want to compete with the Chinese ones, they need to decrease the wages in order to produce at an equivalent price.

**2. 5 Impacts on productivity**

The expansion of world trade, the development of communication, immigration, capital flows and business activities have created a new political controversy these past few years. During the early postwar period, the U. S. favored liberal international trade policies and took the role of leader in promoting the opening world markets. The American currency, which has its value determined in the free market place, has played a key role in the expansion of globalization around the world. However, due to its position the US has implemented a gradual change, which occurs for example in the employment market. Today, the US are focusing on high-skilled jobs and outsourcing low-skilled jobs in emerging markets such as Asia with China, India or Western Europe. Indeed, the rest of the world has an abundant low-skilled workforce who is paid less in comparison to the wages paid in the US. Thus, the United States of America has seen their job market in low skilled requirement fall and the manufacturing industry has followed the trends. Also, the manufacturing jobs in US have seen their

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wages decreased due to the international competition and have seen the arrival of lot of workers issued from the international immigration coming and taking the place of current workers in the manufacturing industry. As discussed above the US job market is changing its structure and needs and the other aspects influencing this job market are the development of new technologies and innovations. Indeed, companies are using newer technology that allows them to get the same amount of work done without any workforce. To conclude, we can say that many factors have influenced the US job market structure and the workforce's productivity.

### **III- Conclusion**

This report focuses on the impacts of globalization on the U. S. job market. We showed that globalization has encouraged some U. S. multinational companies to take advantage of lower trade barriers over the past 15 years to shift jobs and production to lower-wage countries. This phenomenon which is called outsourcing has obviously impacted employment in the U. S.

Future U. S. presidential elections which will occur in two weeks will imply different consequences on employment in the country depending on whether Barack Obama or Mitt Romney will be elected. Employment is at the heart of presidential campaign because unemployment rate has reached high level since the financial crisis (7. 8% in September, 2012 according to the Wall Street Journal). Both Barack Obama and Mitt Romney agree to say that outsourcing has a negative influence on U. S. job market. This is the reason why they want to slow down outsourcing but they are sharing in the way to do that. On the one hand, President Barack Obama has proposed giving tax breaks to U. S. manufacturers that produce domestically or bring back jobs <https://assignbuster.com/impacts-of-globalization-on-the-us-jobs-market-economics-essay/>

from overseas. He also wants U. S. companies to pay taxes on more of their overseas earning. On the second hand, Mitt Romney says he wants to make the United States a more attractive place to do business by cutting corporate taxes and reducing regulations. Romney also says he will discourage companies from moving operations to China by pushing that country to let its currency rise in value.

To conclude, our projections for the U. S. job market are quite optimistic. We predict that the job market in the U. S. will not be necessarily deteriorated in the next decade but it will know major changes in the next few years.

Indeed, we suppose that less-skilled jobs will tend to decrease or stabilize in the United States in the benefits of emerging countries such as Thailand or Indonesia for instance. However, qualified jobs concerning high value added jobs will remain at a high level in the first economy power. Last but not least, it is important to keep in mind that China will be the major competitor of U. S. to provide white-collar worker in the next decade. Thus, United States has to be vigilant and to do efforts if the country wants to keep its economic supremacy.