

The impact of globalization on the united states economy in the 1990's. assignmen...

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The Impact of Globalization on the United States Economy in the 1990's.

Globalization, generally speaking, refers to the integration of the global economy (Hanson, 2001) as economic resources, especially the means of production and capital, move freely across national boundaries, thanks to a regime of lower tariffs, reduced trade restrictions, greater access to information, and the enactment of laws and formulation of policies that offer various inducements to the foreign entity to re-locate to a destination outside the confines of national boundaries.

The globalization of production has meant that one of the most enduring concepts in economics, David Ricardo's, comparative advantage (Hollander, 1979), no longer means that countries may only specialize in the production of goods for which they have been historically deemed to be most suitable in terms of their endowment of economic resources and other factors that give them a relative comparative advantage in the production of these goods (Porter, 1990). The principal vehicle of global change in production has been the multinational or trans-national corporation (Lagace, 2002).

The MNC carries with it the wherewithal for setting up production facilities far removed from the country of origin. It will transplant manufacturing facility, lock, stock and barrel, if necessary, from the home country to the host country. It brings with it capital and skilled manpower and specialized knowledge. It is truly an agent that has all the potential to act as a catalyst for meaningful change. The United States has been a world leader in manufacturing for the greater part of the 20th century.

However its previously seemingly unassailable position as an automotive production powerhouse has been gradually eroded since the 1980's. Japanese manufacturers with their innovations in, so called, lean production techniques, have consistently outperformed their American counterparts and have been able to come up with a better product at a lower cost. The gradual influx of Japanese automotive manufacturers into the United States (Dicken, 2003) is illustrated in Fig-1 (Appendix). U. S. automotive power in the 1980's was concentrated in the ' Big Three' corporations- GM, Ford and Chrysler and although it had become evident even then that foreign auto manufacturers were a force to be reckoned with (Michel Freyessenet, 1998), the U. S. ' Big Three' giants relied on the loyalty of the American consumer for home grown products. This loyalty was certainly a factor of significance but in time a dent was made and slowly but surely, a preference shift for foreign automobiles became established.

The ' Buy American' battle cry became muted and then fell silent. The impact of these changes in the 1990's has been directly instrumental in a loss of customer base for ' Big Three' products so that by 2000 their had declined from 71% in 1999 to 69 % in 2000 and this downward shift accelerated in the post 2000 period and in 2006 had gone down to 57 % while the share of the foreign auto makers had gone up from 29 % in 1999 to 31% in 2000 and to 43% in 2006 (Charleston, 2007).

As more and more of the finished product began to be made in Japanese auto plants on American soil, the supply chain of products that went into the finished product also began to change. Suppliers in the ' home country' were

preferred by the Japanese corporations and they continued to buy from them. They also encouraged and indeed convinced some to re-locate to America. The U. S. suppliers for the ' Big Three' U. S. giants continued to cater to their traditional customer base but some amongst them also began to diversify and won new clients in the Japanese corporations.

For U. S. suppliers the dynamics of globalization has led to intense price competition as the ' Big Three' aggressively put the squeeze on them to reduce product cost to make it possible for them to face up to the foreign competition whose finished product characterized by lower price, significant fuel efficiency, compact size, greater reliability and good after sale service began to win over more and more U. S customers. Thus the average operating margin for several large U.

S. suppliers shrank from 7% in 1996 to 5% in 2000 and further down to 3% in 2005 (Charleston, 2007). The quest to reduce labor cost led to a re-location of supplier production capacity from the relatively high cost Midwestern States to the relatively low cost Southern States within the U. S.. In time the suppliers have begun to outsource production of parts to lower cost manufacturers abroad in Latin America, Eastern Europe and Asia.

Employment in motor vehicle manufacturing and automobile body and trailer manufacturing has been on a plateau, more or less, while employment in motor vehicle parts manufacturing has followed a cyclic up and down pattern reflecting the industry dynamics after the arrival of foreign automobile manufacturers in the U. S.. (Fig-2_Appendix). The advent of foreign manufacturing capacity on U. S. soil as well as immigrant workers has led to

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a steady decline in the strength, membership and bargaining power of labor unions and has kept the wage level down, especially for unskilled and semi skilled workers.

Fig-3 (Appendix) illustrates the decline in Union power between 1983 and 2000. In the less technology intensive areas like apparel, textile and footwear production the downward trend is even more marked. (Fig-4_Appendix). The decline in Union power is also evident in the number of work stoppages involving 1000 or more workers. (Fig-5). In these segments of the U. S. Economy, the U. S. manufacturer lost out to the low cost foreign source supplier (Florida, 2004) and the drift away from the U. S. became firmly established in the post 2000 period.

The employment situation in these areas also reflects this pattern. (Fig-6_Appendix). The United States is where the Information technology revolution took birth in the 1980's and then grew exponentially since, in terms of the range and variety of products offered. However globalization pressures re-located the production of many key components of I. T products away from the U. S. to destinations abroad where labor costs were significantly lower. Thus in 1999 the U. S. produced 80 % of the world's hard drives but assembled less than 1% in the U.

S. and 70% in South East Asia (Zentgraf, 2007) . The change has been no less dramatic in the case of software production without which the hardware would be useless. However the impact of globalization has taken place in this sector in a big way in the post 2000 period when India has emerged as a software powerhouse and U. S. employment in this sector shrunk

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significantly. The integration of financial services in the U. S. between 1980-2000 following globalization is no less important than the integration of production.

The I T revolution has made real time information sharing possible and a free press (Chen, 2005) and an institutional framework that greatly facilitates the free movement of ideas as well as information with de-regulation an important component, are at the heart of financial services integration in the U. S.. The range and variety of financial services offered in all areas, consumer banking, investment banking, insurance has fueled the second industrial revolution that came in the wake of globalization.

The fact that the United States dollar has been the currency of choice has been a core driver in the integration of global financial markets. President Ronald Reagan's role in bolstering the dollar from its position of near collapse in 1979 and his role in setting up the North American Free Trade Association (NAFTA) linking the United States to Mexico and Canada provided the impetus for the re-structuring of the U. S. Economy in the last two decades of the 20th century. Acquisitions, mergers, consolidation- these are the keywords of the ' financialization' of the US Economy in these years.

The paramount significance of de-regulation in promoting the ' financialization' of the US Economy can not be over estimated. De-regulation is important because it has been instrumental in enhancing competition in which the fittest, the most productive, survive. Ironically however, de-regulation is blamed for much of the fraud that occurred in US financial institutions in the post 2000 period (Eatwell, 2000). The services sector share

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in the US Economy has grown from 68.99% in 1980 to 70.7% in 2002 and the financial services sector on its own contributed 34. % to US GDP in 1993. In 1998 74% of US employment was in the services sector and a significant part of the US employment in the manufacturing sector had a nexus with the services sector. Thus while a great deal of attention is often paid to the impact of globalization on US production, the symbiotic growth of the services sector following globalization is often ignored or underrated. In fact the services sector is the main driver of the US Economy and the manufacturing/production sector is dependent for its growth on the services provided by this sector.

The impact of globalization on the well being of Americans in the last two decades or so of the 20th century is generally perceived to be less than salutary. Income inequality has increased, wage levels in other than hi-tech areas have stagnated or fallen and the number of people living in poverty have increased. (Fig-7 ; 8). Between 1947 and 1979 (pre-globalization), the top 5% of the population experienced an 86% income increase and the bottom 20%, a 116% increase. The next four quintiles had income increase of 100%, 111%, 114%, and 99%, respectively.

On the other hand, between 1979 and 2000 (post globalization) the top 5% had an income increase of 81 % and the bottom 20% only 3% followed by increase of 11%, 17%, 26% and 53% respectively. The data speaks for itself and it is obvious that the average American, especially those placed in the lower income bracket is much less well off than in the pre-globalization period. Perceptions notwithstanding, globalization is a movement that

cannot be halted or reversed (Bhagwati, 2004). Human evolution has reached a stage that national boundaries are no longer treated as sacrosanct and planet earth is increasingly viewed as a global village, albeit a village with 7 billion inhabitants spanning five continents. There is no doubt that globalization has greatly benefited developing countries as they get the infusions of capital and skills that transnational corporations bring in their wake. As these countries achieve a new, qualitatively higher threshold of life, their economic power is augmented. It is this economic empowerment that will eventually benefit all human kind.

The problem in the United States is that the recurring trade deficits keep America in the red and this is a very real problem that will have to be dealt with somehow lest the American people lose faith in the globalized world.

APPENDIX FIG-1 FIG-2 FIG-3 FIG-4 FIG-5 FIG-6 FIG-7 ; 8 Bibliography

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