May You Live in Interesting Times

Timothy J. Kehoe
University of Minnesota
and Federal Reserve Bank of Minneapolis

Forging a New Path in North American Trade and Immigration
September 2019
Points to take away:

The Industrial Revolution, which began in U.K. around 1800, has spread rapidly throughout the world, especially since the 1960s. This has significantly reduced extreme poverty and income inequality, especially since 1990.

Multilateral liberalization of trade, foreign investment, and migration has stagnated, leaving unilateral liberalization and regional liberalization as the drivers of globalization. Populism has put liberalization in danger.

Real output of manufactured goods in the United States increased faster than real GDP even as manufacturing employment has fallen. Trade deficits caused only a small fraction — 15 percent at peak — of the drop in manufacturing employment, and this fraction has fallen as the trade deficit has fallen.

The Trans-Pacific Partnership was an opportunity to limit the growing influence of China in international trade and investment. It is not clear that U.S. bilateral approach will be more successful.
Real GDP per working-age in the United States

Index (1875 = 100)

2 percent annual growth trend

Data
Real GDP per working-age in the United States and Japan

[Graph showing the real GDP per working-age in the United States and Japan from 1900 to 2010, with the United States shown in blue and Japan in red. The y-axis represents 1990 U.S. dollars, ranging from 1,000 to 64,000.]
Stages of Economic Growth Revisited
(with Daniela Costa and Gajen Raveendranathan)

Stage 0: Malthusian trap

Stage 1: Growth like that of U.K. in the Industrial Revolution

Stage 2: Real GDP per working-age person at least 35 percent of industrial leader (U.K. in 19th century, U.S. in 20th, 21st centuries)

Stage 3: Real GDP per working-age person at least 65 percent of industrial leader
World population by stage of economic growth

- Stage 0
- Stage 1
- Stage 2
- Stage 3
Real GDP per working-age in the United States and Mexico

United States

Mexico

2011 U.S. dollars
Mexico versus China
(with Kim Ruhl 2011)

Why did Mexico grow so rapidly 1950–1980?
   Urbanization
   Industrialization
   Basic education
Same reasons China has grown rapidly 1990–present

Why has Mexico stagnated since 1980?
   Problems in financial markets
   Problems in labor markets
   Lack of rule of law
China has similar problems

Significant difference between Mexico and China: Mexico was closed to trade and foreign investment during its rapid growth period while China was open.
Stagnation in trade growth in United States and in the world
United States total trade in goods

percent GDP

World total trade in goods
Increasing importance of regional trade blocs

U. S. international merchandise trade (exports plus imports)

- NAFTA
- rest of world
- European Union
- China

percent GDP

Global Imbalances and Structural Change in the United States
(with Kim Ruhl and Joseph Steinberg 2018)

Labor productivity by sector

- goods
- services
- construction

real value added per worker
(1960 = 100)

Share of U. S. labor in goods production

percent total labor compensation


model with no trade deficit

model with trade deficit

data
Importance of trade in services

United States is world’s largest exporter of services.

U.S. trade deficit in total trade may be poorly measured.

U.S. bilateral trade deficits with its trade partners are poorly measured.

“Offshore Profit Shifting and Domestic Productivity Measurement”
United States trade balance

percent GDP

services

total

goods
The Trans-Pacific Partnership was an opportunity to limit the growing influence of China in international trade and investment. It is not clear that U.S. bilateral approach will be more successful.

“Quid Pro Quo: Technology Capital Transfers for Market Access in China”