Chapter 4 Readings

4b The Strange Life of Low-tech America

4c Ballad of the Global Worker

4b The Strange Life of Low-tech America

• What are some low-tech products that remain produced in the United States?
  ♦ Plastic chairs, cutlery, toys, tape-measures, and T-shirts

• What business is the second largest employer in Los Angeles?
  ♦ Clothing

4-2

4b The Strange Life of Low-tech America

• What has helped to renew the clothing industry?
  ♦ Asian, Middle Eastern, and Latin American immigrants

• What is the average hourly wage plus fringe benefits in the manufacturing sector in the United States?
  ♦ $18

4-3

4b The Strange Life of Low-tech America

• What can explain much of the pay gap between the United States and developing countries?
  ♦ Productivity differences

• Transportation costs help keep low-tech production in the United States by
  ♦Offsetting small cost differences for bulky products.

4-4

4b The Strange Life of Low-tech America

• Low-tech industries might be able to adjust to keep their costs low despite a high expense of labor by
  ♦ Becoming more capital intensive.

• What makes proximity (being close) to the market important?
  ♦ Changing fashions, transportation delays, and keeping inventories low.

4-5

4b The Strange Life of Low-tech America

• What type of difficulties with workers might make shifting production abroad less attractive?
  ♦ Transferring skills, finding workers with sufficient skills, keeping trained workers from leaving for local firms

• How can U.S. firms remain one step ahead of low-cost competitors?
  ♦ Innovate, innovate, innovate

4-6
4b The Strange Life of Low-tech America

- In what key sector are U.S. firms still protected from cheaper Canadian producers despite NAFTA?
  - Lumber
- Which sectors of the U.S. economy remain highly protected?
  - Agriculture and textiles

4c Ballad of the Global Worker

- How does the plight of unskilled workers manifest itself differently in Europe than in the United States?
  - Through unemployment in Europe rather than low wages in the United States
- What is widely blamed for the downward pressure on the employment prospects of unskilled workers?
  - Imports from third-world countries

- This simple view misguided because there is a strong relationship between pay and
  - Productivity
- Developing country workers who are paid a tenth of rich country wages usually turn out to be
  - A tenth as productive.

- As the productivity of workers in developing countries rises, what will also rise?
  - Their wages
  - Imports from countries that are relatively abundant in unskilled labor depress the wage paid to unskilled workers by acting like an increase in the supply of
    - Unskilled labor

- What is a major downside of using increased trade protection to preserve the wages of unskilled workers
  - Lose out on gains from trade – country as a whole (and trading partners) worse off.
  - Jagdish Bhagwati argues that trade is not responsible for lowering the wages of unskilled workers due to what missing link?
    - Relative price of competing U.S.-made goods

- Adrian Wood argues that import competition could lower wages of unskilled workers by encouraging the introduction of
  - Labor-saving technologies.
  - What observation about gross domestic products (GDP) suggests that opening up trade with poor countries is likely to have little effect on wages in rich countries?
    - Poor country’s GDP small compared to rich country’s GDP.
4c Ballad of the Global Worker

- What other forces could increase wage inequality?
  - Immigration of unskilled workers, relative decline of minimum wage and unions, technological change
- The dramatically expanded supply of what could decrease wage inequality?
  - Skilled workers