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## Chapter 1 : The American Economy in Transition - CORE

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Their findings show a rise in the values of vertical specialization for a number of countries between about and Japan is a notable exception to the general trend, where the degree of vertical specialization drops from 7. On the export side, the factor-content of exports coming from imported intermediates is measured by the product of exports and the fraction of gross production that is imported intermediates. Vertical specialization in trade equals the sum of these two terms, but since they are equal in value, it is equivalently measured as twice the value of either one. As for explaining the growth in exports for each country, Hummels, Rapoport and Yi find that nearly one-half of this growth is due to vertical specialization-based trade in Canada and the Netherlands; between one-quarter and one-third for France, Denmark and the United Kingdom; and smaller amounts for the United States, Australia and Japan. By a variety of measures, the increased use of imported inputs, and narrowing of production activities within each country, is a characteristic feature of many OECD countries over the past two decades. With firms in developed countries facing a higher relative wage for unskilled labor than that found abroad, the activities that are outsourced will be those that use a large amount of unskilled labor, such as assembly of components and other repetitive tasks. This means that outsourcing has a qualitatively similar effect on reducing the demand for unskilled relative to skilled labor within an industry? This insight has several important implications. First, we should not assess the proximate cause of the decline in employment and wages of unskilled workers by attributing all within-industry shifts in labor demand to technology, and allowing trade to operate only via between-industry shifts. This was the approach taken by Lawrence and Slaughter and Berman, Bound and Griliches, both of whom considered only trade in final goods. In that context, it is correct that international trade must affect labor demand through interindustry shifts. But as soon as trade in intermediate inputs is permitted, as with outsourcing, then changes in the demand for labor within each industry can occur due to trade, as well. In fact, the whole distinction between "trade" versus "technology" becomes suspect when we think of corporations shifting activities overseas. The increase in outsourcing activity during the 1980s was in part related to improvements in communication technology and the speed with which product quality and design can be monitored, which was in turn related to the use of computers. The ability of these stores to offer lower prices has depended on an extensive system of outsourcing to low-wage countries, with new inventory methods and rapid communication allowing for design changes that are frequently needed in apparel. This illustrates that trade through outsourcing and technology through computerized communication and inventories are complementary rather than competing explanations for the changes in employment and wages in the import-competitive sectors. Given the difficulties in obtaining accurate measures of outsourcing across industries, it is perhaps not surprising that attempts to measure the impact of trade on the employment and wages of skilled and unskilled workers have led to quite modest estimates. At the same time, attempts to measure directly the impact of information technology on employment and wages of skilled and unskilled workers directly—as opposed to treating the technology variable as a residual—have also found that this variable can explain only a fraction of the changes. In fact, the same reason is often given for such findings. Trade, it is often pointed out, still represents a relatively small fraction of GDP. And as Robert Gordon, p. There are a number of models that can be used to explore the impact of globalization on wages. One approach, for example, is to consider how skilled and unskilled labor are used in different intensities along "value chain" of a product, as in Feenstra and Hanson. They find that outsourcing reduces the relative demand for unskilled labor, and this result applies both to the more developed economy that is shedding production activities, and to the developing economy that is receiving them. The reason is that the outsourced activities are unskilled labor-intensive relative to those done in the developed economy, but skilled labor-intensive relative to those done in the less developed economy.

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Moving these activities from one country to the other raises the average skill-intensity of production in both locations. Another approach is to bring location decisions and transportation costs in to the picture explicitly. Markusen and Venables, a, b allow multinational firms to choose their location of production, in a setting with high and low skilled labor, into each country. They also find that multinationals can increase the skilled-unskilled wage gap in the high income country, and under some circumstances, in the low income country as well. Krugman and Venables analyze a model with trade in intermediate goods subject to transport costs. At medium levels of transport costs low enough to promote trade but high enough to prevent factor price equalization, a core-periphery pattern emerges: In comparison, the increased use of computers and other high-technology equipment accounted for 30 percent of that shift. At lower levels of transport costs, the agglomeration of manufacturing in the core areas disappears, leading to a fall in wage inequality across regions. For example, Davis; forthcoming; has considered the implications of globalization in a model that contrasts the flexible wages of America with the fixed wages of Europe. It turns out that the impact of globalization is very different than if wages are uniformly flexible; in particular, the brunt of the new supplying countries is borne by European unemployment when those wages are fixed, and does not affect American wages as would occur if both regions had flexible wages. To answer this, it is worthwhile to review the welfare criterion underlying any response to import competition, and existing trade laws that appear to act on the basis of these concerns. At the heart of any policy action taken to protect individuals or firms from import competition is, I believe, the sense that people should be protected from undue losses as a result of international trade. In this spirit, existing trade policies attempt to compensate those individuals who have been harmed due to expansions or changes in the pattern of trade. This is not to say that all actors involved in the formulation of trade laws have this exact interest in mind, but rather, that one outcome of the bargaining process over trade laws is that something like the "conservative social welfare function" becomes an objective. The question of whether there exists a more efficient set of instruments to achieve this objective will be taken up in the next section. Gao forthcoming has extended this type of model to allow for multinational firms, and found that agglomeration breaks down more quickly at higher levels of transport costs due to these firms, leading to more equal incomes across countries. Later, the criterion to receive protection under Section U. Another example consistent with the "conservative social welfare function" is trade adjustment assistance, which offers special compensation to workers who are laid off due to import competition. It is worth asking why workers and firms in trade-impact industries receive special compensation, while individuals experiencing economic hardship for other reasons do not. The answer is that both trade adjustment assistance and the "escape clause" provision are payoffs that make trade liberalization politically feasible. In contrast, a worker laid-off due to tight monetary policy is not entitled to special compensation beyond the usual unemployment insurance. It is difficult for economists to see the difference between workers in these two cases, but it is built into our institutions: The sovereignty of nations, combined with shared authority for trade policy within a nation, implies that economic hardship due to trade liberalization will be treated differently from hardship due to changing domestic conditions. In view of the increased integration of the global economy, it may be that the "escape clause" provision should be strengthened to obtain better coverage of individuals affected, as has been proposed by Rodrik. But the concern for the change in income of domestic factors is not new, and the magnitude of potential losses for unskilled labor in industrial countries-where these losses are due to increased trade and outsourcing-is perhaps no greater now than has occurred in earlier rounds of trade liberalization under GATT. Can provisions such as this be justified in welfare terms? Clearly, it makes sense to include the well-being of agents in other countries within any welfare criterion. But the concerns being expressed for foreign workers are slightly unusual in that they do not necessarily focus on the poorest workers abroad. Furthermore, the concerns expressed for foreign workers do not focus on those workers facing a drop in income due to trade. Indeed, the "voluntary" nature of the employment relation is sometimes used as a justification for avoiding intervention. But this is surely incorrect! The fact that a worker would "voluntarily" continue in a job that exposed her to health hazards attests to her dismal alternative

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opportunities, and the complete absence of any bargaining power compared to the firm. This is precisely the situation where some institution be it the government or a union that can represent the interests of workers is called for. The question, then, is whether trade policy has any role to play in protecting the interests of foreign labor. A number of examples of this already exist. While these powers exist for the Executive Branch, there are two problems with their use. First, denying preferences to a foreign country across all industries is a very broad foreign policy action, and would usually be decided on that basis. These laws are too sweeping to allow particular companies to be sanctioned. Second, these laws involve a comparison of U. This is a difficult and value-laden judgement, since it involves imposing the preferences of one country on another. Considerations of national sovereignty suggest that countries are largely entitled to choose their own domestic policies, even when they conflict with established norms abroad. If one country believes that another is failing to enforce its own laws in these areas, then a complaint can be brought before the North American Commission for Labor Cooperation, which includes representatives from each country, and attempts to resolve the dispute through consultation and cooperation. Critics of this agreement have argued that the procedures for resolving disputes are slow, and include major exceptions that render them ineffective. One part of the answer is that these provisions place domestic labor and business in an adversarial position. Without capital mobility, domestic workers and firms would both want greater enforcement of labor standards abroad, so as to lessen import competition. This is similar to the common front that labor and capital often take in Section protection, with unions and firms in an industry both appearing before the U. International Trade Commission to argue for tariff protection. But with rapid capital mobility, through either direct investment or outsourcing, firms can move abroad to take advantage of lower wages and regulatory burdens, so they would not want to have regulations enforced more strictly. This means that globalization and rapid capital mobility has changed the bargaining positions of labor and capital. The position of capital has been strengthened in that it can seek opportunities abroad, while labor has been placed in a weakened position. Some preliminary evidence on this is provided by Slaughter , who finds that globalization has increased the elasticity of labor demand in some manufacturing industries. The impact of globalization on changing the bargaining position of labor and capital has far-reaching consequences. The decline in union power within trade-impacted industries may well account for a portion of the increased wage inequality in the United States Borjas and Ramey, Such an outcome is efficient, since the deadweight losses from taxing mobile capital are high, but it has distributional effects that cannot be ignored. While the ability to raise revenue from capital taxation has been reduced, the need to raise revenue to offset external risks created by international competition has increased. This is the fundamental policy dilemma that Rodrik identifies. There is now a case being considered at the second tier of treatment, involving alleged pregnancy discrimination among actual or prospective female workers in the maquiladora sector of Mexico Compa, b. I have suggested that to understand the implications of this change, we need to use a conceptual framework where firms allocate their production activities worldwide. First, the globalization of production should bring with it gains from trade that are likely to be substantial. Over and above the traditional gains from increased specialization and exchange across countries, trade in intermediate inputs brings efficiency gains that amount to an outward shift in the production frontier for final goods in each country. This was emphasized by Ethier , who discussed international returns to scale due to increased variety and trade in differentiated intermediate inputs. The same productivity gains discussed in this literature apply when firms shift their production activities across countries. However, we must ask whether these efficiency gains bring costs in terms of the distribution of income. One way to phrase this question is to consider whether outsourcing makes factor-price equalization more or less likely. Evidence from the integration of countries through trade strongly supports the idea that factor prices move towards equality Ben-David, , ; Williamson, If we also allow firms to spread their production process across countries, would this accelerate or offset the movement towards factor-price equalization? To answer this, start with two countries having quite different factor endowments. Suppose that they are different enough so that trade in final goods is not able to equalize factor prices. Now allow firms in each country to break up their production

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process, and pursue activities in the other country. Activities that are intensive in unskilled-labor would be performed in the country abundant in that factor. Effectively, this is the same as allowing firms to import a certain amount of primary factors from the other country, and combine it with their home production. The result of this outsourcing activity on factor prices would therefore be the same as the movement of factor between countries: From the perspective of the scarce factor in each country that is, unskilled labor in the United States, this means that their wages would be lowered by out-sourcing, over and above the impact of trade in final goods.

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## Chapter 2 : Business Population | FRASER | St. Louis Fed

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Colonial Times to Consultantsâ€™ Lawrence A. Harper, University of California; Robert C. Price, University of Michigan; Stella H. Colonial Times to Principal consultantâ€™ Lawrence A. Statistics are a valuable adjunct to historical analysis. They often clarify and enrich qualitative history and on occasion become important parts of a historical record on their own. However, users of historical data are faced with the paradox of over-abundance and scarcity. A burdensome multiplicity of sources has frequently to be consulted in order to reconstruct one quantitative aspect of a particular subject. Just as often, users are confronted by a discouraging barrenness of data, discoverable only after much costly work and delay. The objective of the Historical Statistics volumes is to provide a convenient reference source which has two functions, collecting and referring. The collecting function consists of assembling, selecting, and arranging data from hundreds of sources and making them available within a single source. The referring function consists of text annotations to the data which act as a guide to sources of greater detail. The annotations also define terms used in the tables and include essential qualifying statements. It provided a wide range of series quantifying various aspects of the development of the Nation. An interim Continuation to was issued in to provide data for to for the still-active series shown in the first volume. Limited resources confined the scope of the first volume to data most readily available, usually from governmental agency sources. Nevertheless, some 3, statistical time series were presented. Historical Statistics of the United States, Colonial Times to , issued in , represented a substantial expansion of the data shown in the original volume. It presented more than 8, time series, mostly annual, on a greater variety of subjects and for longer time periods. The statistics were also more fully annotated and more precise references to original sources were provided. For a greater number of series, in addition, there were more detailed descriptions of the development and reliability of the data. A Continuation to and Revisions was issued in , presenting revisions of data in the basic volume and extensions to of the more than 6, series still current at that time. Each of the first two volumes was prepared with the cooperation of the Social Science Research Council, the guidance of a distinguished Advisory Committee, and the assistance of numerous scholars, research analysts, and particular subject specialists. A description tracing the development of the first two editions appears below under "Origin of Historical Statistics of the United States. Superintendent of Documents was exhausted. The edition had already been through a cycle of five printings and a question was raised concerning the advisability of further printings in the light of a possible new edition. The question was timely. Experience with the first two editions and their Continuation supplements had shown that a new edition was desirable at 10 to 12 year intervals. The Continuation supplements were at best handy stopgaps for researchers, a serviceable minimum seriously lacking in documentation. As each year lengthened the interval between editions, the "convenience" value of both the Continuation to and its parent Historical Statistics. More and more time series were revised in part or entirely replaced. Further, the task for the user of updating the still active, unrevised, series became more burdensome despite the special efforts of the an-Digitized for FRASER [http: Louis nual Statistical Abstract](http://Louis nual Statistical Abstract) to maintain a direct linkage to as many historical series as possible in its current tables. As a result, a decision was made in to begin preparation of a new edition. The plans for the new edition immediately encountered the problem of funding and resources. It was clearly impractical at that time, given the available resources, to consider undertaking a fullfledged new edition of Historical Statistics. The determination to make a start, however, was very strong and more modest objectives were adopted. In effect, the early plans for the present edition proposed that it comprise little more than: N o time span was specifically set down to complete the work because there was a clear understanding that it was a part-time staff project. Two other aspects of this plan differed considerably from the procedures followed for the last edition. For that edition, a large number of consultants were enlisted for their expertise in

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assembling and developing new time series, reviewing and adjusting old time series, and providing explanatory and bibliographic notes for both. Although most of these consultants, especially those in Federal agencies, contributed their own and their agencies services without compensation, many were compensated from funds provided by the Ford Foundation by arrangement through the Social Science Research Council. Partly for the same reason, it was decided not to revive the collaboration of the Census Bureau with the Social Science Research Council which had proved so highly effective for the first two Historical Statistics editions. Even more convincing for the Bureau decision to undertake the project alone was the solidity of the base which those editions now provided for the next edition. Seeking such collaboration again seemed unwarranted in the light of the modest objectives outlined above. As the work slowly progressed and as the many consultants and contributors gave generously of their knowledge and talent, it became clear that our objectives were too restrictive; that our contemplated mere updating would, if adhered to, have to ignore a large accumulation of new time series which were either ineligible for the last edition at that time they covered a period of less than 20 years or had not been discovered or properly developed prior to that edition. The gradual accretion of new material plus the additions to old material substantially changed the planned scope of the present edition. What follows are some measures of the changes in content introduced in the present edition. All of the broad subject fields shown as separate chapters in the last edition are included in this edition and follow the same sequence. Within some of the chapters, however, chapter segments have been regrouped into new subchapters as in chapters K and X and in others, the sequence of the subchapters has been changed as in chapters H, Q, and U to achieve minor improvements in the juxtaposition of subjects. In two chapters, two entirely new subchapters have been added: "Economy" to chapter F and "Flow of Funds" to chapter X. The present edition presents more than 12,000 time series, a 50 percent increase over the last edition. Every chapter has undergone some expansion with respect to new time series. Chapter F, national income and wealth, and chapter H, social statistics, doubled in number of series; the former from 10 to 20 and the latter from 10 to 20. The increase in chapter F was largely due to newly-added data for economic growth rates, greater detail than was previously shown for national and personal income, and data showing valuation of capital stocks. Unsurprisingly, the largest increase in series occurred in chapter H where the data for social insurance and welfare, education, and crime and correction reflect the great public attention given to these subjects in recent decades. Almost equally large increases took place for chapter K, agriculture, and chapter X, financial markets and institutions formerly banking and finance; chapter K from 10 to 40 series; chapter X from 10 to 20. Partly to accommodate the increase in series, chapter K has been subdivided into 4 parts. Most of the new series in chapter K relate to farm population and farm-operator characteristics, farm marketings, government payments and price supports, and a number of new measures of farm productivity. For chapter X, the bulk of the increase in series is in the new flow-of-funds subchapter. Several chapters now include for the first time a number of data series below the national level. In all, there are 13 new tables comprising series in this category, 9 of which present data for the individual States and 4 for either regions e. New England, South Atlantic. Perhaps of special interest among these tables are the series on population characteristics and land area for each State A, those on selected items for farms and farm population by State K, those on voter participation in presidential elections by State Y, and those on population censuses taken in the colonies and States during the colonial and pre-Federal period Z. A summary of selected new series included in each chapter is shown on p. One other important change is the reinstatement of a time period index see p. A - 4 which first appeared in Historical Statistics. The index enables users to identify quickly which time series or statistics for particular subjects begin in the specified or year time segment e. As a result of the complete review and updating of the contents of the last edition of Historical Statistics, many changes, apart from the entirely new series, have occurred in both the tables, the descriptive text, and the bibliographic notes. Most of the changes are due to revisions and corrections made during the interval between the last and present editions by the sources of the data affected. Where users of both editions become aware of discrepancies in what purport to be identical sets of data, it is safe to assume that the figures, descriptive text, and notes in the

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present edition supersede those in the last edition. With rare exception, all of the series shown in the last edition are also included here. They were primarily discontinued series replaced on recommendations of consultants by other series of a similar kind or were considered of marginal importance or relatively weak in other respects. In one or two instances, space was also a factor. Bureau of the Census plans to prepare an historical supplement to the Statistical Abstract of the United States. The formal decision in by the Bureau of the Census to compile and publish such a volume led to the reconstitution of the joint committee, which then became the Social Science Research Council Committee on the Source Book of Historical Statistics, Advisory to the Bureau of the Census. For the second edition, Historical Statistics of the United States, Colonial Times to , the Bureau designated a project director who also acted as secretary of the Committee on Historical Statistics appointed by the Social Science Research Council to serve as an advisory group similar to the committee which participated in the preparation of the first edition. The Census Bureau again assumed the responsibility for publishing the volume as a part of its Statistical Abstract program. The Social Science Research Council, in turn, obtained a grant from the Ford Foundation which provided funds for the procurement of services of experts in each field. More than such specialists were engaged to serve as consultants. The Council also made arrangements with some of the consultants for the preparation of bibliographic essays on statistics in selected fields, five of which were subsequently published in the Journal of the American Statistical Association. The Problem of Historical Statistics The scattered sources of historical statistics of the United States include the annual reports of the executive heads of the agencies of the Federal Government, reports of special Federal commissions, the U. It has been noted that on occasion compilers, desiring to save the time and effort required to obtain data directly from the original sources, make use of successive issues of the annual Statistical Abstract Origin of Historical Statistics of the United States of the United States to construct long-term time series. Of the many revised figures appearing in each issue, most revisions apply to the immediate precedSocial Science Research Council that the Secretary of Commerce ing years, but revisions of much earlier years are not uncommon. Earlier the same year, J. Frederic Dewhurst urged the development of an historical source book in a proposal to the American Statistical Impediments to the use of historical statistics, then, include the initial difficulty of determining whether the data in fact exist, of Association and the American Economic Association. A joint comidentifying the document in which the data may be found, of committee was named by these associations, joined by the Economic structing time series where the data may not be arranged in suitable History Association, to explore the practical problems of preparing form, and of identifying and interpreting changes in concept and such a volume.

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## Chapter 3 : Common Stock Prices and Yields | FRASER | St. Louis Fed

*U.S. Department of Commerce, Office of Business Economics, U.S. Exports and Imports Classified by OBE End- Use Commodity Categories, , A Supplement to the Survey of Current Business ().*

Aspects of growth, structural change, and employment: Der Zusammenhang zwischen Produktionsstruktur und Entwicklungsniveau, Versuch einer Strukturprognose für die westdeutsche Wirtschaft. Determinants of the commodity structure of U. Determinants of the structure of U. Domestic production and foreign trade: The American capital position re-examined. Exchange rate dynamics and monetary policy. Exchange rates in the short run: Factor inputs in U. Flexible exchange rates and macroeconomic management: A study of the Japanese experience in Foreign Affairs 55, Human capital and the pattern of foreign trade: International investment and international trade in the product cycle. Past trends and new factors. Labor skills and comparative advantage. Published in English as The American Challenge. Nature, capital, and trade. Temporary equilibrium and long-run equilibrium. Outstanding Dissertations in Economics series. Test of a product cycle model of international trade: The impact of national characteristics and technology on the commodity composition of trade in manufactured goods. The international allocation of economic activity. The United States electronics industry in international trade. A supplement to the Survey of Current Business. Wages and foreign trade.

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## Chapter 4 : SCB\_ - [PDF Document]

2 UNCTAD U. S. Exports and Imports, classified by OBE end-use commodity categories - Foreign Commerce and Navigation of the United States- U. S. Merchandise Trade Exports and Imports-- , classified by BEA end-use commodity categories.

The Changing Pattern of U. Corporationsâ€™ Revised Estimates for and 26 The U. Department of Commerce Maurice H. Send orders to the Superintendent of Documents, U. Government Printing Office, Washington, D. Make checks pay- able to the Superintendent of Documents. Correspond- ence on editorial matters should be addressed to the Office of Business Economics, U. Department of Commerce, Washington, D. Anchorage, Alaska Sixth Ave. Cincinnati, Ohio Main St. Cleveland, Ohio Euclid Ave. Des Moines, Iowa Federal Bldg. Honolulu, Hawaii Alexander Young Bldg. San Juan, Puerto Rico P. Little is known about the behavior of other inventories, but what evidence there is suggests that the amount of output going into inventory may be much smaller this quarter than last. A fourth quarter backup in the stocks of suppliers to the auto manufacturers, followed by liquidation in the first quarter, may be responsible for part of the shift. The January estimates of inventory book valueâ€™the latest availableâ€™show substantial declines re- ported for manufacturing and for non- auto retailing. The survey findings are reported in detail on pages Apart from the surge in auto buying, consumer demand for goods seems to be fairly sluggish. The retail sales esti- mates for the month of January, together with weekly data for February, suggest that the dollar volume season- ally adjusted of nonauto retailers was little changed from the fourth quarter pace. Spending for services seems to be growing at the normal rate, however. Business fixed investment seems to be increasing fairly rapidly. Much of the current strength represents auto and truck purchases postponed from the strike-affected fourth quarter, though investment in structures is also on the rise. The latest OBE-SEC survey of plant and equipment spending found business expecting a sizable gain in the first quarter after a big drop in the fourth, and looking to moderate growth through the rest of the year chart 1. The OBE-SEC survey results re- ported in detail on pages show an expected strengthening of manufactur- ing outlays during the course of , reversing the downtrend of the past year or more. In view of the depressed level of capacity utilization in much of manufacturing, the strength of this expectation is somewhat surprising. OBE-SEC hinge to a large degree on expectations of sharply accelerated sales growth see table 2, page 17 ; the recent liberaliza- tion of depreciation rules may also be having some effect. Housing starts have been running at a very high rate in recent months, and spending for residential construction continues to expand. Starts were rising swiftly in the latter months of and in December hit an extraordinarily high annual rate of just over 2 million units. The rate in both January and February was back down to 1. Gains in spending lag somewhat behind in- creases in starts. State and local government spending for goods and services seems to have been increasing quite rapidly in recent months. This is partly because con- struction is recovering from the slump brought on by tight credit conditions, but there is also a visible speedup in the growth of payrolls. Federal spending, on the other hand, seems to be continuing to shrink. Production, Employment, and Income Industrial output fell slightly in February after 2 months of increase. There were sizable gains in auto and steel production but these were out- weighed by declines elsewhere chart 2. FRB increase in steel output also represented recovery from the effects of the strike. However, it appears that steel produc- tion is also getting an important boost from inventory stockpiling against the possibility of a strike this summer. Some further increase in the rate of steel production is entirely possible, but the recovery in the auto assembly rate seems to have run its course. While that represents a steep advance from the strike periodâ€™ assemblies ran at a rate of only 4 mil- lion units in October and Novemberâ€™ it is not an exceptionally high rate. Meanwhile, imports continue to do very well. Labor force developments The civilian labor force declined , in February on a seasonally adjusted basis, the largest drop since January The decline erased most of the gain of the previous 3 months and brought the civilian labor force back to about the level of last October. The number of employed members of the labor

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force decreased, in February and the number unemployed decreased, Unemployment dropped in January as well. The last time unemployment declined for 2 months consecutively was in October and November of However, that decrease, unlike the present one, was accompanied by growth in the civilian labor force. Bureau of Labor Statistics. The seasonally adjusted unemployment rate reached a low in February at 3. For perspective, table 1 presents changes in selected labor force measures between February and February, when the unemployment rate was 5. All the measures shown increased over that period. The civilian labor force rose more than the total labor force in both absolute and relative terms—reflecting the decrease in the size of the Armed Forces. Employment rose by over 1 million persons, with all of the increase occurring before last spring; since then, there has been a net decline in employment. If the unemployed are disaggregated into three groups—teenagers, adult women, and adult men—the relative increase in unemployment is found to be greater for the latter group. In February, adult men represented 58 percent of the civilian labor force and only In February, adult men represented It seems clear that the rise in unemployment has hit hardest at this primary labor force group, whose labor force attachment is very stable. Payrolls declined in manufacturing and in other commodity producing industries construction and mining. Transfer income increased slightly less in February than in other recent months. That drop reflected the effect of the California earthquake. Much of the property damage was uninsured and an estimate of the value of the loss was charged off in the month in which it occurred, thus resulting in a reduction in net rental income. Mid-March saw a further reduction of the prime rate—the fifth since the turn of the year and the ninth since midsummer. At some banks on the west coast, reduction of the prime rate was accompanied by cuts in the interest rates on mortgages and on regular savings deposits. In long term markets, the rate decline was interrupted in February and early March by an extraordinary volume of new issues. The upturn of yields on corporate bonds cut deeply into the declines registered earlier this year. By mid-March, however, the worst of the congestion seemed to have passed and yields seemed to have stabilized. Commercial banks The Federal Reserve continued last month to pursue a goal of easier credit conditions, and strong growth was again evident in the nonborrowed reserves of member banks. This spurt followed several months of sluggish growth and was probably due in part to a heightened demand for transaction balances associated with the exceptionally large volume of stock and bond market activity. Bank credit expansion was strong again in February. Government and State and local securities. Business loans, which had declined rather sharply in the closing months of last year, rose a bit in January and somewhat further in February. The recent increases appear to be associated partly with the recovery from the auto strike, and perhaps also to some slowing in the repayments of loans from the proceeds of capital market borrowing. Savings and loan associations Easing credit conditions and sharp declines in market interest rates have sparked an extraordinary recovery in deposit growth at thrift institutions. The improved flow of funds to these major mortgage lending institutions has already assured that resources are available for financing the large volume of homebuilding expected this year. Deposit growth at savings and loan associations has been accelerating since early chart 3, and reached record proportions in recent months. Consequently, mortgage lending activity, which reached recent lows in the winter of last year, is in the midst of a striking recovery. The auto strike was an important factor in the decline, which centered in durable goods manufacturing. Earnings of non-durables manufacturers were also down somewhat but earnings of nonmanufacturing groups were generally little changed or higher. Book profits include gains or losses due to differences between the replacement cost of goods taken out of inventory and the cost at which they are charged to production. These gains or losses are excluded from the estimate of the profits share of national income. Federal deficit higher The auto strike had a significant impact on Federal Government receipts in the fourth quarter. The impact of the profits shrinkage was especially sharp, but other receipts were also affected—personal taxes, indirect business taxes excises, and, to a much smaller degree, social insurance contributions. Defense purchases of goods and services declined in the fourth quarter and civilian purchases rose little. The increase in expenditures on the NIA basis was largely in transfer payments and grants to State and local governments. These developments included legislation to increase social security benefits by 10

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percent retroactive to January but payable in June. The budget allowed for an increase as of January in the earnings subject to the social security tax, but the legislation just passed provides for that increase to occur in January. Measures of national output: The estimate of corporate profits completes the preliminary fourth quarter figures for the "income side" of the national accounts. With those figures available, it is possible to compare the estimate of national output constructed from the "income side" with the more familiar estimate constructed from the "product side," i.e., the two measures represent alternative ways of estimating the market value of national output—as the sum of costs incurred and profits earned in producing the output "income side" or as the sum of sales and inventory change "product side". There is no clear basis for deciding that one alternative is statistically more accurate than the other. The "product side" measure, i.e., the two measures are based on source data that are not only imperfect but also largely independent, and thus the two may differ in level and in rate of change. The difference between the measures appears in the national accounts as the "statistical discrepancy." Past experience suggests that the gap will narrow as the estimates are revised on the basis of more and better source data.

Vx V " Outflow i i i Monthly Jan. Industrial production declined about 0. Nondurable goods Services Gross private domestic investment Fixed investment. Imports Government purchases of goods and services. Federal National defense Other State and local 4

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## Chapter 5 : The rise of vertical specialization trade | Benjamin Bridgman - calendrierdelascience.com

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I argue that declining trade costs are an important explanation for these facts. I present a three stage vertical specialization trade model, with raw materials, manufactured parts and final goods sectors. In the simulated model, falling trade costs explain much of the observed growth in overall and VS trade. Manufacturing trade grows twice as fast as overall trade. Raw materials trade was more important in the s when trade costs were high, since their production is more strongly linked to endowments than manufacturing. Therefore, materials will be traded even when trade costs are high. Trade costs have fallen more for manufactured goods over the last 40 years, leading to a rapid expansion of manufactured parts trade relative to materials. Trade costs; Vertical specialization; Manufacturing trade. The views expressed in this paper are solely those of the author and not necessarily those of the U. Bureau of Economic Analysis or the U. The share of U. At the same time, the structure of trade has changed. The share of manufacturing output that is exported quadrupled during that period. This fact is puzzling given that manufacturing has not grown as a nominal share of output. Early on, when manufacturing was a large part of production, there was little trade in manufactured goods. Later, when manufacturing declined in importance, trade became dominated by trade in these goods. At the same time, vertical specialization VS trade, trade in goods incorporating imported inputs, has expanded rapidly. While this fact may be initially somewhat surprising, a glance at the types of goods traded 50 years ago explains why. Trade in the early postwar period and earlier was dominated by intermediate goods, particularly raw materials such as ores and lumber. In , the only industries with more than 10 percent of domestic supply from imports were mining and forestry industries Walderhaug Figure 1 shows the share of U. Imports are dominated by such supplies early in the period, making up almost two thirds of imports. Industrial supplies fell from over half of imports in the to less than a quarter in the s. The spike in share in the mids is due 2 to the run up in oil prices, as demonstrated by the non-fuel supplies share. For example, see Houseman Understanding this question is important for determining the degree to which imports and output are mismeasured. Source data for goods trade is measured in gross output terms. With VS trade, a portion of exports consists of imported inputs. If these imported inputs are not properly accounted for, net exports and national output will be mismeasured since the value of exports will in part incorporate the value of imported inputs. Imports of Industrial Supplies, 0. I argue that the rise of manufacturing and VS trade are related: Both are driven by falling costs of trading manufactured parts. The s coincide with the implementation of the Kennedy Round along with other trade deals, such as the U. Since then, trade policy has gone from being biased against manufactured goods to being more neutral. Prior to the Kennedy Round, trade was dominated by low value raw materials. Raw materials were imported despite being expensive to ship because the ability to produce them is strongly linked to endowments. Therefore, materials cannot not reliably be replaced domestically and were essential for production. Manufactured goods are easier to replace with a domestic good since they are less dependent on endowments. This paper presents an expanded version of the tractable general equilibrium model with Ricardian trade in intermediate goods found in Bridgman a. There are two countries with three layers of production: The simulated model nearly all of the empirical growth in trade and the change in composition, accounting for over two thirds of the increase in both total and manu- facturing trade from to Manufacturing trade grows much faster than overall trade growth. While overall share of goods output that is traded more than doubles between and in the baseline simulation, manufacturing trade share triples. VS trade also grows rapidly, doubling from to Lower trade costs on manufactured parts led to an rapid expansion of VS trade. While VS trade grows rapidly, the share of trade that is in intermediate goods does not increase. Intermediate goods trade shifts from being dominated by raw materials to manufactured parts. Raw materials production tends to depend on local geograph- ical conditions in a way that manufacturing does not.

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Mines can only be sited where ore exists naturally. Geography is also important for agricultural and forestry goods. Manufacturing is much less tied geographic conditions. Therefore, raw materials will be traded even when trade costs are high. Combined with the fact that trade costs for raw materials fell less, most of the new trade in goods is due to new trade in manufactured parts. The paper also contributes to the historical measurement of the structure of trade protection. Examples include Anderson and Irwin Supplementary tables used in the calculation of the input-output IO tables provide estimates of trade costs by IO commodity. These supplementary tables can be combined with the IO tables to generate estimates of the structure of protection. However, they have not emphasized the structure of trade expansion. While Bergoening et al. This paper is also part of a literature examining the impact of the structure of protection on economic performance. Unlike these papers, I examine the change in the composition of intermediates trade. One way to distinguish between the two types of goods is to partition goods into one category or the other. A tire can either depending whether it is sold to a car company or a consumer. Trade statistics do not record to whom goods are sold, so we cannot distinguish directly. I use this method to estimate the rates of protection on goods by use. This table is not reported for all benchmark years, but they are for pre-Kennedy Round and post-Kennedy Round. They can also be calculated for , and These margins are matched to the input-outputs tables<sup>1</sup>. The trade weighted import cost is given by: Freight costs  $f_i$  are weighted in a similar fashion. Most raw materials are bulky and low value. Freight costs for manufactured goods have fallen by much more than for raw materials. Manufactured goods freight costs fell in half while raw materials show no downward trend. Freight for manufacturing has fallen while it has not for materials<sup>3</sup>. For example, General Motors has vertically integrated and disinte- grated a number of times over the years. High trade cost goods are likely to be traded less than low trade cost goods. Bridgman b shows that for freight, lower trade costs induce lower value goods to be traded which masks changes in trade costs. Excluding oil products raises the freight rate to 5. Bridgman b shows that freight rates for oil are negatively related to oil prices, since rates are charged by volume. Households have prefer- ences over a consumption good represented by: The associated prices are  $P_{c,j}$  i. Each country is endowed with labor  $N_i$ . The wage is  $W_i$ . Each country can only produce the good with its name: Total output of part  $z$  is given by: As with material goods, each country can only produce the good with its name: The total output is given by the technology: The associated price is  $P_{c,j}$ . The government gives the domestic representative household transfers  $T_i$  and maintains budget balance. They face competitive markets and solve: Materials exporters face competitive markets and solve: Parts and consumption goods exporters solve a similar problem. There is a corresponding feasibility constraint for parts that are exported and materials production. Labor feasibility requires that labor sum to the total population. Households solve their problem, 2. The government balances its budget, 4. The allocation is feasible. There is a symmetric equilibrium with a closed form solution when the parameters are the same in the two countries. Prices and quantities in the parts and materials sectors across the countries mirror each other: