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The Economy in Perspective

By the sweat of our brow … Everyone knows the story: U.S. agricultural employment has plummeted since the 1920s, when farm jobs made up about 20% of total U.S. employment. Today, that share is only 2%. For almost 30 years now, the absolute number of agricultural jobs in this country has changed little, but overall employment has expanded significantly. Yet early in the century, farm output swelled as farm jobs declined; in the last three decades, output doubled as employment held steady. This reveals the key role of productivity gains in the evolution of the agricultural sector.

Thirty years ago, the goods-producing sector accounted for one-third of all U.S. nonfarm employment, with the service-producing sector contributing the remaining two-thirds. Today, the goods-producing sector accounts for 20% of total employment, having slipped from 22% when the current expansion began. So far during this expansion, the U.S. economy has generated 20 million net new jobs, of which only 1.5 million came from the goods-producing sector. Employment in this sector today stands at the same absolute level it hit 20 years ago. Many of us still have not gotten used to the idea that goods-producing employment in the United States is declining as a share of total employment. How much more difficult will it be to get used to a goods-producing sector that (like farming) has peaked out in terms of absolute employment as well?

Goods-producing employment's share of the U.S. labor market has diminished, but the importance of goods production has not. Roughly the same percent of value added comes from the goods-producing sector today as 20 years ago—just under 40%. But the composition and strategic role of goods production is changing rapidly. According to Federal Reserve statistics, computers, communications equipment, and semiconductors accounted for about 8% of total industrial production last year. However, production of these materials has increased almost 600% since 1992, while overall industrial production advanced only 35%. From another perspective, the average annual growth rate of U.S. manufacturing capacity from 1975 to 1999 was 3.2%, while the comparable figure for the high-tech sector was 19.3%. Growth in manufacturing capacity excluding this sector would have been only 1.9% per year on average. So not only does the high-tech sector account for ever greater shares of output; the creation of its infrastructure accounts for expanding shares of the nation's labor and capital resources as well.

As the composition of U.S. goods production has been changing, the importance of foreign trade has been expanding. Thirty years ago, U.S. imports and exports combined amounted to roughly 10% of the size of the economy (as measured by GDP); today the combined total has grown to nearly 30% of the economy's size. The explosion of both import and export volumes over the years need not have had any implication for the trade balances or net international investment position of the United States. However, the nation's current account has persistently been in deficit for nearly 20 years. Our net international investment position has declined as well, from approximate balance to substantial deficit about $1.5 trillion.

The velocity of these trends intensified during the current economic expansion; recent estimates of our 1999 current-account deficit are in the $300 billion range. The U.S. net investment deficit has grown so large that our trade deficit, which used to be partially offset by positive net income from foreign investment, is now augmented by net payments made to foreigners as investment income.

Despite its improved productivity and product innovation, the United States has continued to import more than it exports. U.S. current-account deficits have persisted because the rest of the world has been willing to finance them by accumulating U.S. dollar-denominated assets, either in the form of a financial instrument or a physical asset. These assets provide the foreign owner with future consumption in exchange for goods and services provided to U.S. residents today. The current U.S. investment boom has been partly supported by foreign participants and accompanied by dollar appreciation. Should foreign residents conclude that they can get better returns elsewhere, or should they desire to step up the pace of their own consumption, we can expect the dollar to depreciate and the cost of capital to rise.

Longer-term trends make it clear that changes in the composition of domestic production, along with a steady reliance on foreign capital inflows, have far-reaching implications for U.S. economic performance. We may lead the world in the production of advanced technology products, but if we want to continue consuming more than we produce, we still have to pay for the privilege.