SECTION 2

The New Global Economy

MAIN IDEA	WHY IT MATTERS NOW	Terms & Names
Because of technological advances and new trade laws, the U.S. economy underwent a boom during the late 20th century.	New types of business have meant new work environments and new challenges for American workers.	• service sector • downsize • Bill Gates • NASDAQ • dotcom • General Agreement on Tariffs and Trade (GATT)

One American's Story

As Bill Clinton took office in 1993, some regions of the nation, particularly the Northeast, were still in an economic recession. Near Kennebunkport, Maine, the John Roberts clothing factory faced bankruptcy. With help from their union, the factory workers were able to turn their factory into an employee-owned company.

Ethel Beaudoin, who worked for the company for more than 30 years, was relieved that the plant would not be closing.

Workers at the John Roberts clothing factory

A PERSONAL VOICE ETHEL BEAUDOIN

"It's a nice feeling to be part of the process . . . of deciding what this company buys for machinery and to know the customers more intimately. They're our customers, and it's a nicer feeling when the customers know that the coat that we put out is made by owners."

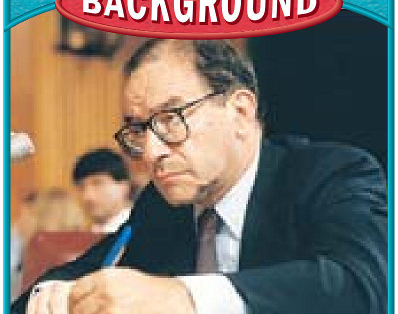
—quoted in *Divided We Fall*

Beaudoin's experience offered one example of the economic possibilities in America. A new global economy—brought about by new technologies, increased international competition, and the end of the Cold War—changed the nation's economic prospects.

The Shifting Economy

Americans heard a great deal of good news about the economy. Millions of new jobs were created between 1993 and 1999. By the fall of 2000, the unemployment rate had fallen to the lowest it had been since 1970.

ECONOMIC BACKGROUND



GREENSPAN AND THE FED

Alan Greenspan has been chairman of the Federal Reserve System (the Fed) since 1987, when he was appointed by President Ronald Reagan. The Fed has been described as the economic pacemaker of the United States because it helps determine how much money there will be in the American economy.

Before being elected president in 2000, George W. Bush made it a point to meet with Alan Greenspan before meeting with anyone else in Washington. (See *interest rate* in the Economics Handbook, page R42.)

But there was alarming news as well. Wage inequality between upper- and lower-income Americans—the income gap—widened. Median household income began to drop. Although economists disagreed about the reasons for the economy's instability, most everyone agreed it was undergoing significant changes.

MORE SERVICE, LESS SECURITY Chief among the far-reaching changes in the workplace of the 1990s was the explosive growth of jobs in the **service sector,** the part of the economy that provides services to consumers. By 2000, nearly 80 percent of American workers were teachers, medical professionals, lawyers, engineers, store clerks, waitstaff, and other service workers.

Low-paying jobs, such as sales and fast-food, grew fastest. These positions, often part-time or temporary, offered limited benefits. Many corporations, rather than invest in salaries and benefits for full-time staff, instead hired temporary workers, or temps, and began to **downsize**—trim payrolls to streamline operations and increase profits. Manpower, Inc., a temporary services agency, became the largest U.S. employer, earning $2 billion in 1993 when fully 640,000 Americans cashed its paychecks. In 1998, over one-fourth of the nation's work force worked in temporary or part-time positions. A

MAIN IDEA

Summarizing

A How did the change from an industrial economy to a service economy affect Americans' economic security?

Of those cut in downsizing, younger workers suffered higher rates of unemployment. In 1999, an average 11 percent of workers aged 16 to 24 were unemployed—more than double the national rate. Three out of four young Americans expected to earn less money as adults than their parents did.

FARMS AND FACTORIES The nation's shift to a service economy came at the expense of America's traditional workplaces. Manufacturing, which surpassed farming mid-century as the largest job sector, experienced a sharp decline in the 1980s and 1990s. In 1992, for example, 140,000 steelworkers did the same work that 240,000 had accomplished ten years earlier. Larry Pugh talked about the downsizing of a farm equipment factory in his hometown of Waterloo, Iowa.

A PERSONAL VOICE LARRY PUGH

"There used to be 17,500 people working here. . . . Now there are 6000. Those people spent their money. They bought the cars. They bought the houses. They were replaced by people that are at the minimum wage—seven or eight dollars an hour, not 15 or 20 dollars an hour. These people can hardly eke out a living at today's wages."

—quoted in *Divided We Fall*

The decline in industrial jobs contributed to a drop in union membership. In 1945, 35 percent of American workers belonged to unions; by 1998, only 14 percent were union members. In the 1990s, unions had trouble organizing. High-tech and professional workers felt no need for unions, while low-wage service employees feared losing their jobs in a strike. Some workers saw their incomes decline. The increased use of computer-driven robots to make manufactured goods eliminated many jobs, but it also spurred a vibrant high-tech economy. Those with advanced training and specialized technical skills or a sense of entrepreneurial risk-taking saw their salaries rise and their economic security expand. B

MAIN IDEA

Analyzing Effects

B How did downsizing affect people?

Persons Employed in Three Economic Sectors*			
Year	**Farming**	**Manufacturing**	**Service Producing**
1900	11,050	7,252	6,832
1950	6,001	18,475	20,721
2006 (projected)	3,618	24,451	111,867

*numbers in millions
Sources: *Historical Statistics of the United States, Colonial Times to 1970; Statistical Abstracts of the United States, 1953, 1954, 1999*

SKILLBUILDER **Interpreting Charts**
1. What sector of the U.S. economy has seen the greatest decline in workers over the past century?
2. In terms of employee participation, by roughly what percent is the service sector expected to grow between 1950 and 2006?

HIGH-TECH INDUSTRIES In the late 1990s, entrepreneurs turned innovative ideas about computer technology into huge personal fortunes, hoping to follow in the footsteps of **Bill Gates,** the decade's most celebrated entrepreneur. In 1975, Gates saw the advent of personal computers as a promising opportunity. He founded the software company Microsoft with his friend Paul Allen. In 2000, it had made him the wealthiest individual in the world, with assets estimated at about $60 billion.

A frenetic outcropping of new businesses accompanied the explosive growth of the Internet late in the decade. The **NASDAQ** (National Association of Securities Dealers Automated Quotation System), a technology-dominated stock index on Wall Street, rose dramatically as enthusiasm grew for high-tech businesses. These businesses were known as **dotcoms,** a nickname derived from their identities, or addresses, on the World Wide Web, which often ended in ".com." The dotcoms expanded rapidly and attracted young talent and at times excessive investment funding for such untested fledgling companies. While many people were drawn into the startup Internet-based companies, others profited from quitting previous jobs to become day traders and exchange stock online. As technology sales accelerated and stock prices rose, personal fortunes increased for some. The euphoria of a seemingly unstoppable economy caused memories of recession to fade.

Even industry giants, such as Microsoft and America Online, could not predict the speed with which the general public would adopt these new technologies. Thousands of smaller businesses were quick to anticipate the changes that the Internet would bring. Suddenly companies could work directly with consumers or with other companies. Many predicted that the price of doing business would fall dramatically and that overall worldwide productivity would jump dramatically, a combination not seen since the Industrial Age of the 19th century. The boom of new business was termed "The New Economy."

Background
See *e-commerce* on page R40 in the Economics Handbook.

Highly overvalued, the NASDAQ fell sharply in 2000, however, and many personal fortunes evaporated. Nevertheless, the fast-growing technology sector gave birth to new fields of enterprise—Web security, wireless communication, robotic engineering, and multimedia programming.

At 18 years old, Shawn Fanning started a free music downloading service on the Internet called Napster. He became a multimillionaire after forming an alliance with a German media company.

GEOGRAPHY SKILLBUILDER

1. **Location** What is the only G-8 country located outside Europe and North America?
2. **Location** To which world trade organizations does the United States belong?

Change and the Global Economy

In 1900, airplanes hadn't yet flown and telephone service was barely 20 years old. U.S. trade with the rest of the world was worth about $2.2 billion (roughly 12 percent of the economy). Nearly a century later, New Yorkers could hop a supersonic jet and arrive in London within three hours, information traveled instantly by fax machines and computers, and U.S. trade with other countries approached $2 trillion (more than 25 percent of the economy). As American companies competed for international and domestic markets, American workers felt the sting of competing with workers in other countries.

INTERNATIONAL TRADE The expansion of U.S. trade abroad was an important goal of President Clinton's foreign policy, as his support of NAFTA had shown. In 1994, in response to increasing international economic competition among trading blocs, the United States joined many other nations in adopting a new version of the **General Agreement on Tariffs and Trade (GATT)**. The new treaty lowered trade barriers, such as tariffs, and established the World Trade Organization (WTO) to resolve trade disputes. As President Clinton announced at the 1994 meeting of the Group of Seven, (the world's seven leading economic powers, which later became the Group of Eight when Russia joined in 1996), "[T]rade as much as troops will increasingly define the ties that bind nations in the twenty-first century."

INTERNATIONAL COMPETITION International trade agreements caused some American workers to worry about massive job flight to countries that produced the same goods as the United States but at a lower cost.

Background
"Job flight" had occurred in the 1970s, when cheap but quality auto imports from Japan and Germany forced many U.S. workers out of high-paying jobs.

In the 1990s, U.S. businesses frequently moved their operations to less economically advanced countries, such as Mexico, where wages were lower. After the passage of NAFTA, more than 100,000 low-wage jobs were lost in U.S. manufacturing industries such as apparel, auto parts, and electronics. Also, competition with foreign companies caused many U.S. companies to maintain low wages.

In Montreal, Canada, on March 29, 2001, protesters demonstrate at a summit on globalization and the Free Trade Area of the Americas (FTAA).

Less economically advanced countries also offered some businesses an opportunity to evade the strict environmental regulations legislated in such developed nations as the United States. Just south of the U.S. border with Mexico, for example, foreign-owned *maquiladoras*, or assembly plants, were accused of operating irresponsibly, dumping poisonous chemical wastes on Mexican soil.

To remain competitive, many U.S. businesses felt the need to make their operations more global in order to produce goods as economically as possible. Indeed, the shipping label for a product of one American electronics company reads: "Made in one or more of the following countries: Korea, Hong Kong, Malaysia, Singapore, Taiwan, Mauritius, Thailand, Indonesia, Mexico, Philippines. The exact country of origin is unknown." C

MAIN IDEA
Analyzing Effects
C What were some of the effects of NAFTA and GATT?

With the U.S. economy undergoing such extensive change at the turn of the 21st century, feelings of insecurity were inevitable. Many Americans in all sectors of the economy feared being left behind by the rapid change. Other Americans, however, saw great opportunities for progress—especially from the endless stream of new technology.

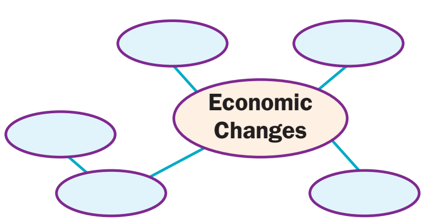
SECTION 2 ASSESSMENT

1. TERMS & NAMES For each term or name, write a sentence explaining its significance.

- **service sector**
- **downsize**
- **Bill Gates**
- **NASDAQ**
- **dotcom**
- **General Agreement on Tariffs and Trade (GATT)**

MAIN IDEA

2. TAKING NOTES
In a cluster diagram like the one below, record the major changes that occurred in the U.S. economy during the 1990s.



Which change has affected you the most? Explain.

CRITICAL THINKING

3. ANALYZING EFFECTS
Explain who was negatively affected by the changes in the economy and what negative effects they suffered.
Think About:
- who had the highest unemployment rates
- what types of jobs were eliminated
- what other negative effects there were

4. ANALYZING ISSUES
How do you explain some Americans' fears over the international trade agreements?

5. DRAWING CONCLUSIONS
Considering the economic changes described in this section, how do you think workers can best prepare themselves for the future?