Where You Live Affects What You Think about Trade

The issue of job security inevitably arises in any discussion about reducing international trade barriers. In 2006 the Chicago Council on Global Affairs and a number of partners surveyed public perceptions in the United States, China, India, and South Korea on a wide range of foreign policy issues.\(^3\) Overall, the opinions expressed reveal similarities concerning the importance of protecting jobs as well as differences concerning the connection between international trade and job security. Specifically, responses from the U.S. survey help explain why international trade legislation in the United States is so controversial.

According to the 2006 survey, the American public feels that protecting the jobs of American workers should be the top U.S. foreign policy goal. The next three goals are preventing the spread of nuclear weapons, combating international terrorism, and securing adequate supplies of energy. In fact, the goal of protecting American jobs has been at or near the top of this survey’s responses for more than twenty years.

The U.S. respondents see international trade as threatening American jobs. Although the majority of those surveyed think that international trade improves their standard of living, 67 percent of those surveyed also think that international trade adversely affects job security for American workers. Only 30 percent think international trade enhances job security.

Much job insecurity in the United States can be traced to the near doubling of the global pool of labor stemming from the integration of China and India into the world economy. China has become a major player in the export of manufactured goods, while India has become a major force in services. Perhaps surprisingly, this concern about job security does not translate into a desire for higher trade barriers. Although 36 percent do favor protectionism, 43 percent favor agreements that lower trade barriers so long as governmental assistance is provided to those who lose their jobs. An additional 15 percent would lower trade barriers without governmental assistance.

Like U.S. respondents, respondents in the Asian countries believe that protecting jobs in their countries should be a high priority for foreign policy. In China, protecting jobs was the highest-ranked foreign-policy priority; in South Korea, it was second behind promoting economic growth; and in India it was in a three-way tie with promoting economic growth and combating world hunger. A key contrast between these three Asian countries and the United States involves their perception of the connection between international trade and job security. Recall that less than one-third of the American public believe that international trade contributes to job security. Meanwhile, the comparable percentages in India (49 percent) and South Korea (51 percent) are roughly one-half and the percentage in China (65 percent) is nearly two-thirds. Thus, Asians are much more inclined to believe that trade contributes to job security than job insecurity.

Although job security is not the only consideration that influences the public’s position on trade liberalization, it certainly plays an important role. A comparison of American views with Chinese views on the desirability of free trade agreements provides some suggestive evidence on this claim. For example, the percentage of Americans who believe their country should have a free trade agreement with China, India, and South Korea was 34 percent, 36 percent, and 39 percent, respectively. Such a reluctance to support free trade agreements likely reflects concerns that freer trade will increase job insecurity. Meanwhile, the percentage of Chinese who think their country should have a free trade agreement with the United States, India, and South Korea was 66 percent, 59 percent, and 66 percent, respectively.

The survey results point to the following conclusion: Because jobs are very important, political support for trade liberalization will increase if the costs borne by those who are adversely affected are mitigated. The majority (62 percent) of respondents to a September 2006 survey by the German Marshall Fund of the United States, however, believe that the U.S. government does a poor job in helping workers adjust to new competition.\(^2\) In today’s political reality in the United States, without effective mitigation, the potential gains from trade liberalization are quite likely to remain unrealized.

—Cletus C. Coughlin

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1. Australia and Japan also participated. See www.thechicagocouncil.org/dynamic_page.php?id=56.
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Conventions used in this publication:

1. Charts and tables contain data that were current through April 2007. Unless otherwise indicated, data are quarterly.
2. The percent change refers to the percent change from the same period in the previous year. For example, the percent change in 2 between quarter 1 to 4 is: [(\text{Q4, t-1})/\text{Q3, t-1}] × 100.
3. All data with significant seasonal patterns are adjusted accordingly.

We welcome your comments addressed to:
Editor, International Economic Trends
Research Division
Federal Reserve Bank of St. Louis
P.O. Box 442
St. Louis, MO 63166-0442
or to:
stlsET@stls.frb.org

In response to the removal of reserve requirements and the declining importance of float, the Bank of Canada has revised its definitions of M1 and M2, replacing them with M1B and a new M2 series, respectively. The Bank's website provides additional information at the following: http://www.bankofcanada.ca/en/rates/aggreg_note.html.

International Economic Trends will present data from the new series.

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Notes and Sources

International Economic Trends


M1
Japan: cash, currency in circulation, and deposit money.

Euro area: currency in circulation and overnight deposits.

M1B
Canada: currency outside banks, bankable checkable deposits, and non-bankable deposits.

M2
United States: currency in circulation, travelers' checks, total publicly-held checkable deposits minus check cash in the process of collection and Federal Reserve float, savings deposits in shares in retail money market mutual funds with initial investments of less than $50,000, net of retirement accounts, and institutional money market mutual funds.

M3
Canada: currency outside banks, bankable demand and notice deposits, bankable personal term deposits, adjustments to M2 (continuous deposits and non-bankable deposits).

M2 + CDs
Japan: M2 plus private deposits, public deposits less demand deposits, and certificates of deposit.

M3
Euro area: M1 plus deposits with a maturity up to 2 years, deposits redeemable at notice up to 3 months, repurchase agreements, money market funds, and debt securities up to 2 years.

M4
United Kingdom: M2 plus wholesale deposits with the U.K. banks and building societies.

Output Per Worker is the ratio of real GDP to employment.

Producer Price Index covers manufacturing for Canada and the United Kingdom; and total industry for Japan and the United States. Data for the euro area, France, Germany, and Italy are based on the harmonized index of total industry excluding construction.

Retail Sales are based on a volume index. The percent change in retail sales for the United States is based on the Standard Industrial Classification system through 1992 and the North American Industrial Classification System from 1993 on.

Stock Exchange Index refers to all share prices except for the United Kingdom, which excludes financial firms.

Unemployment Rate is the standardized unemployment rate. It is the percentage of the civilian labor force that is unemployed. The unemployed are all persons of working age who are without work, readily available for work, and actively seeking work. The standardized rate may differ from the national unemployment rate calculations.

Sources

Abbreviations
Board of Governors of the Federal Reserve System (BOG)
Institute of Economics and Statistics (IBES)
International Monetary Fund (IMF)
Organization for Economic Cooperation and Development (OECD)
International Labor Office (ILO)
Main Economic Indicators (OECD/IMF)
National Accounts Quarterly (OECD/IMF)
Canada
Bank of Canada: M1B and M2.

BOG: exchange rate.

IMF: foreign exchange reserves and merchandise trade, real effective exchange rate, and reserve money.

OECD: gross government debt and budget balance.

OECD/IMF: capacity utilization, consumer price index, current account balance, GDP, industrial production, interest rates, M4, producer price index, retail sales, stock exchange index, and unemployment.

Statistics Canada: employment.

United Kingdom

BOG: exchange rate.

IMF: foreign exchange reserves and merchandise trade, and real effective exchange rate.

OECD/IMF: gross government debt and budget balance.

OECD: capacity utilization, consumer price index, current account balance, manufacturing production, industrial production, M4, producer price index, retail sales, stock exchange index, and unemployment.

United States
BOG: exchange rate.

IMF: foreign exchange reserves and merchandise trade, and real effective exchange rate.

BEA: GDP, current account balance, merchandise trade, and retail sales.

BLS: employment, consumer price index, and producer price index.

Federal Reserve Bank of St. Louis: adjusted monetary base and M2.

OECD: foreign exchange reserves and real effective exchange rate.

OECD/IMF: gross government debt and budget balance.

OECD/IMF: hourly earnings, stock exchange index, and unemployment.

Slovenia joined the euro area effective January 1, 2007. The Notes section details the data series that now incorporate Slovenia.

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Notes
Euro Area Data: The euro area was excluded to indicate on January 1, 2001, and Slovenia on January 1, 2007. Historical euro area series for earnings, unemployment, government debt and budget balance, gross domestic product (GDP), and industrial production include Greece. Capacity utilization, the consumer price index, current account balance, merchandise trade, monetary aggregates, and the producer price index include Greece and Slovenia. The series for interest rates, and retail sales include Greece starting in January 2001 and Slovenian January 2007. The series for unemployment, the real effective exchange rate, and the stock exchange index include Greece starting in January 2001.

Euro-area interest rates prior to December 1997 are calculated on the basis of national government yields, as specified by EBRD. Starting in 1997, short-term rates are euro interbank offered rates. Long-term rates are calculated on the basis of national government bond yields, as specified by the normalised outstanding amounts of government bonds in each maturity band.

The current-dollar exchange rate used in the chart on page 12 is a synthetic rate prior to January 1999. This is constructed by calculating a weighted average of the exchange rates of the euro-area countries, excluding Greece and Luxembourg, against the dollar. The weights are based on 1997 GDP figures.

GDP Data: As a result of rounding to the nearest unit of Germany are now incorporated in the statistical series. The starting period for unified German data are listed below. Care should be exercised when interpreting the data around these break points.

Third quarter 1990: current account balance, international trade, and unemployment.
First quarter 1991: consumer price index, GDP, industrial production, output by worker.
First quarter 1993: stock exchange index.
Third quarter 1993: exports, imports.
First quarter 1995: hourly earnings.

Capacity Utilization covers the manufacturing sector for Canada, France, Japan, the United States, the United Kingdom, the euro area, China, Indonesia, Mexico, the Netherlands, Hong Kong, Korea, Singapore, and Taiwan. The series includes measuring excluding food, beverages, and tobacco for Germany; and mining and manufacturing for Italy.

Consumer Price Index is for all items. The current index is based on goods and services consumed by all individuals for Canada; all multi-person household excluding those mainly engaged in agriculture, forestry, and fisheries for Japan, all households excluding those in federal institutions, and high household incomes for the United Kingdom; and all urban households for the United States. Data for the euro area, France, Germany, and Italy are based on the harmonized index of consumer prices.

Current Account Balance is the sum of merchandise and service exports and imports, net receipts on domestic assets from residents of other countries, and transfers and service imports and income payments from foreign assets in the domestic economy plus unilateral transfers.

Real Earnings are based on hourly wages in manufacturing for Canada, Germany, the United States, and the euro area hourly earnings in manufacturing excluding construction for France, hourly earnings in industry for Italy, monthly earnings in manufacturing for Japan, and weekly earnings in manufacturing for the United Kingdom.

The Exchange Rate for all counties except the United States is expressed as units of local currency per U.S. dollar. For the United States the trade-weighted exchange rate, TWI, is used. It is a weighted average of the exchange rates of the U.S. dollar relative to the currencies of the other countries in the exchange}

Notes and Sources

International Economic Trends

Table: Real Gross Domestic Product

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<th>Change from year %</th>
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Table: Nominal Gross Domestic Product

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Table: Consumer Price Index

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Table: Unemployment Rate

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International Economic Trends

United States

International Trade - Goods and Services
Percent of GDP

Imports
Exports

Current Account Balance
Percent of GDP

Foreign Exchange Reserves
Billions of US$ 0

Real Effective Exchange Rate
Index 2000 = 100

Canada

Real GDP
Percent change from year ago 0

Employment
Percent change from year ago 0

Consumer Price Index
Percent change from year ago 0

Unemployment Rate
Percent 0

Real Hourly Earnings
Percent change from year ago 0

Current Account Balance
Percent of GDP 0
International Economic Trends

**United States**

**GDP**
Percent change from year ago

**Industrial Production**
Percent change from year ago

**Retail Sales**
Percent change from year ago

**Capacity Utilization**
Percent

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**Canada**

**GDP**
Percent change from year ago

**Industrial Production**
Percent change from year ago

**Retail Sales**
Percent change from year ago

**Capacity Utilization**
Percent

*Data prior to 1999 may not be strictly comparable with later figures (see Notes).*
International Economic Trends

France

Real Hourly Earnings and Output per Worker
Percent change from year ago

Labor Force Indicators
Percent change from year ago

Inflation
Percent change from year ago

Gross Government Debt and Budget Balance
Percent of GDP, annual data

Japan

Real Monthly Earnings and Output per Worker
Percent change from year ago

Labor Force Indicators
Percent change from year ago

Inflation
Percent change from year ago

Gross Government Debt and Budget Balance
Percent of GDP, annual data

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