Reading Report Form

Print your name:	
Date of discussion:	1/27/03
Write the exact library reference for this reading	The American Economic Review
Level of difficulty (1 easy – 5 hard)	4.5
Circle your effort in preparing for this reading assignment?	Exceptional **Substantial** Average Mediocre Disastrous

Use as much space as needed to answer the following questions:

10 points	1. What do you think is the main purpose of the reading?
30 points	2. Outline (list) the main points of the reading, in order, by paragraph.
30 points	3. Describe what you read. You may use **quotes** from the reading (do not plagiarize).
20 points	4. In your opinion, how does this reading contribute to learning?
10 points	5. What comments are you planning to make during the discussion?

Question 1: What do you think is the main purpose of the reading?
The main purpose of this reading is weather or not the United States is entering a new global economy. The writer of the article, Douglas Irwin, opens up with a quote from former president Clinton stating the United States could "compete and win" in "a new global economy." However, Irwin felt that the postwar period seemed "more remarkable than it really was."

Question 2: Outline

I. Opening
   A. Is the U.S. in a new global economy
   B. U.S. returning to degree of economic integration last seen in 1913
   C. U.S. involvement in World Economy in 20th century vs 19th century

II. International Trade
   A. Merchandise exports as a share of GNP
   B. International trade carried on for centuries/Exports not key to success for large countries
   C. Merchandise goods vs service goods
   D. Merchandise exports as a share of GNP
   E. Comparing GNP from 1889-1990 with merchandise exports included
   F. New global economy for traded-goods producers
   G. Bulk of trade transfers from Ag. Products and raw materials in 1890 to manufactured goods in 1990.
   H. Comparison of goods prices throughout markets to ensure integration

III. International Factor Mobility
   A. International Mobility in the 19th century
   B. Short term nominal interest rates U.S. vs Britain
   C. Trans Atlantic cable effect on price differentials in two different markets

D. Foreign controls affect on U.S. participation in world capital market
E. Floating exchange rates lead to high degree of market integration
F. Immigration in the U.S.
G. Trade imperfect substitute for factor mobility
H. Early immigration had a greater negative effect on real wages then current immigration

IV. Conclusion
A. Global Economy not obvious

Question 3:

The article I read for class discusses the possibility of a "new global economy." The article opens by explaining that the U.S. has entered into an era of "integration with the world economy." The article then goes on to compare the economy in the 20^{th} century with that of the 19^{th} century economy. Irwin starts by discussing international trade.

Irwin compares the GNP of merchandise exports of 1889 and 1989 and finds that there is not much of a difference. Irwin states "because merchandise trade imbalances tend to be relatively small percentages of BNP, the calculation changes little if one instead uses imports as the basis of comparison." Irwin continues by showing that the figures of GNP show that there has not been a big change to which the U.S. has been involved in trade over the last century. Meaning that trade has been around for a while, and not a new economic activity.

Continuing with international trade, Irwin discusses the fact that the U.S. has moved from merchandise products to service products, "caused by a shift in the demand for service products." When including merchandise exports in the GNP calculation, GNP has risen from 18.6 percent to 31.1 percent from 1889 to 1989. To continue with exports, one will notice that in 1970 exports doubled, by both measures. Due to the fact that "industries operated in a much different environment in the 1970's and 80's then they had in the 1950's or 60's."

The commodity composition of trade has shifted from agriculture products and raw materials in 1890 to manufactured goods in 1990. However, these factors have not significantly affected the share of final goods. This number has been relatively stable over time.

Irwin moves to discuss market integration by comparing prices in different markets. Irwin says market integration is achieved when common good prices are equal in different markets, with no affect from volume of trade. An example Irwin gives is in the prices of goods traded between U.S. and Europe. Irwin finishes on International trade by saying that "post-war decline in tariffs" has had the same affect as "transportation costs of the late 19^{th} century" on goods prices. Irwin then considers International Factor mobility on a new global economy.

Although net capital formation for the U.S. was 8-10 percent foreign capital, and a third of net private domestic investment were net foreign investments this says little about "capital-market integration in terms of asset prices."

After adjusting for transaction costs, and risk of silver monetization, short-term nominal interest rates of the U.S. and Britain were relatively equal. This equality was helped along by the induction of the trans Atlantic telegraph. The trans Atlantic telegraph made it possible to complete transactions in a day, as compared to 3-5 days by ship. This new speedier line of communication "reduced price differentials on comparable assets between the two markets by amore substantial magnitude than have more recent innovations in communication technology that reduced such delays from hours to minutes."

Another international factor would have to be exchange rates. The floating exchange rates of the 1970's and 80's made it possible for the U.S. to return to the same high "degree of world capital market integration" achieved under the gold standard. Immigration has also been a large international factor in the aging of the economy.

In the late 19th century, from 1881-1890, the annual "immigration rate was 9.2 per 1,000 of U.S. population, and 14.5% of the nations population was foreign born. Now compare that with 3.1 per 1,000 U.S. population from 1981-90 and 7.9% of the population being foreign born. Jeffery Williamson argued that this affected real wage convergence among new world countries more dramatically in the 19th century then in the 1950's. He also stated that the "additional supply of labor had a more negative affect on real wages then do estimated affects of recent immigration."

In conclusion, this writer would agree with Irwin by saying a "new global economy is not obvious." Yes, there have been some significant changes in the economy since the 19th century, but nothing to prove there was not a global economy a century ago as compared with today.

Question 4:

This reading has helped me to understand the beginning of International trade and how it has affected the economy. This article goes into detail discussing the economy and trade in the 19th century along with some major changes in the 20th century. This writer did not currently know the history of the "global economy" and now has a deeper knowledge of this subject. So, in conclusion this article definitely helped me in the class International Economics.

Question 5:

Some comments I am planning to make during class will include GNP percentages in 1889 and 1989 with merchandise exports included. Movement of the U.S. from merchandise goods to service goods, exports doubled in 1970 due to increase in the exposure of tradable goods industries to international competition. I will also include the fact that the bulk of trade in the late 19th century was in agriculture products and raw materials and in the late 20th century the bulk of trade is in manufactured goods. Equality of goods prices in two different markets. I will include foreign capital, received and invested. This writer will also discuss the integration of the Trans Atlantic Cable in class. The last, but not least factor I will discuss in class is immigration and its affect on the economy in the 19th and 20th century.