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Globalization and the Wisconsin Economy

by
Steven C. Deller
Professor and Community Development Economist
Department of Agricultural and Applied Economics
University of Wisconsin-Madison/Extension

Globalization is a term that has become synonymous with something leading to bad things for America and Wisconsin. The idea is that opening international markets for trade places domestic firms at unfair comparative advantage because of higher labor costs and stricter environmental regulation, to name a few. Globalization is of course a real phenomenon with levels of international trade growing faster than overall economic growth. Therefore national economies are becoming more interdependent. But should this process be demonized? Politicians such as Ross Perot and Pat Buchanan have made careers out of arguing for trade restrictions to protect American businesses and jobs. Even financer George Soros warns that global capitalism is a greater threat to open society than totalitarianism.

But greater levels of free trade is a two way street: as American markets open to foreign firms, foreign markets open to American firms. Much attention has been paid to the US trade deficit in which we tend to import more goods and services from abroad then we export. While prominent economists such as Paul Krugman have challenge the means by which these data are collected and reported, the real question is whether or not free trade creates higher levels of economic growth. Many economists argue that higher levels of economic growth under free trade more than off set trade deficits.

While economists and politicians continue to battle over the pros and cons of free trade and higher levels of globalization, we hope to shed a bit of light on this heated debate with some evidence on the importance of foreign trade to Wisconsin markets. Many goods and services produced in Wisconsin are shipped overseas and this in turn has a ripple or multiplier affect on the rest of the economy. This intent of the modest study reported in this issue of *Community Economics* is to document the level of Wisconsin's foreign exports and the impact they have on the Wisconsin economy. Clearly this is only one piece of a complex puzzle, but it is one piece that has not been previously examined.

To accomplish this task we use a regional economic model of the Wisconsin economy using data for the year 2000. The modeling approach is often referred as a social accounting matrix (SAM) which is a variation on an input-output model and documents the flow of dollars between businesses, consumers, and governments. One could think of a SAM as a large spreadsheet of the economy with the columns capturing all the buyers in the economy while the rows capturing all the sellers. By tracing the flow of dollars through the SAM we can measure the impact of any one sector on the whole of the economy.

In 2000 total industrial sales in Wisconsin was about $328 billion of which $22.7 billion dollars, or 6.9 percent, was devoted to international sales (Table 1). Because of Wisconsin's disproportionate dependence on manufacturing, the largest share of foreign export is in manufacturing where 14.4 percent of all production goes to foreign markets. Other sectors that have a relatively high level of foreign exports include agriculture with 5.6 percent of all production being exported out of the country and transportation, communication and utilities (TPCU) at 6.8 percent.

The larger question is how does $22.7 billion of economic activity ripple through and impact the rest of the Wisconsin economy. For this study we use two measures of economic activity: employment and total income. Think of a business that has $1 million in sales, has 3 employees including the owner and pays $100,000 in wages, salaries and retained profits. Our three economic measures are: $1 million in

industry sales, 3 jobs, and $100,000 in total income. Using our SAM model of Wisconsin, foreign exports accounts for just over 411,000 jobs and $21.6 billion in total income (Table 2). Hence, foreign exports account for about 12.8 percent of the Wisconsin economy. Surprisingly 22 percent of Wisconsin's manufacturing depends on foreign markets either directly through direct shipments or indirectly thorough the multiplier effect.

Consider for example Harley-Davidson which has a large direct export market. If those export markets were to close not only would the sales of Harley-Davidson decline, hence lowering employment and income, but would also reduce the purchase from input suppliers located throughout Wisconsin. These supplies would also reduce production, employment and income paid. Similar analogies could be made for any number of Wisconsin businesses ranging from cheese producers to firms offering engineering services.

One obvious conclusion to this simple study is that foreign export markets are important to the Wisconsin economy. This study is too limited to conclude if the importance of foreign markets is increasing or declining for Wisconsin, nor can it address whether or not potential markets are being lost to foreign competitors. But hopefully, the findings reported here refocuses the globalization debate on the opportunities that foreign markets offer Wisconsin businesses. Rather than demonize the opening of foreign markets, the residents of Wisconsin would be better served by looking at free trade as an endless source of opportunities. The challenge is to identify those opportunities and seize them.

Table 1

	Total Industrial Sales*	Foreign Exports*	Percent of Total
Agriculture	$ 7,859.02	$ 442.30	5.6%
Mining	$ 537.56	$ 11.16	2.1%
Construction	$ 24,906.06	$ -	0.0%
Manufacturing	$ 125,510.34	$ 18,091.19	14.4%
TCPU	$ 21,279.91	$ 1,452.33	6.8%
Trade	$ 38,884.34	$ 1,414.29	3.6%
FIRE	$ 38,281.58	$ 908.91	2.4%
Services	$ 50,625.14	$ 390.64	0.8%
Government	$ 20,239.04	$ 5.84	0.0%
Totals	$ 328,123.00	$ 22,716.66	6.9%

*Millions of dollars

Table 2

	Employment	Total Income*	Percent of Total
Agriculture	18,100	$ 252.46	14.2%
Mining	500	$ 41.87	13.6%
Construction	3,700	$ 178.35	1.8%
Manufacturing	138,900	$ 9,404.09	22.0%
TCPU	25,900	$ 2,041.86	17.7%
Trade	96,400	$ 3,574.98	13.0%
FIRE	21,500	$ 2,514.68	9.7%
Services	97,800	$ 3,205.92	10.3%
Government	8,500	$ 372.12	2.1%
Totals	411,200	$ 21,586.33	12.8%

*Millions of dollars

Steven C. Deller

Community Development Economist

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