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Report Part Title: The Makeup of the U.S. Economy

Report Title: Key Trends in the Global Economy through 2030

Report Author(s): William Reinsch and Jack Caporal

Report Editor(s): Matthew P. Goodman, Scott Miller

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The Makeup of the U.S. Economy

The U.S. economy is well positioned to take advantage of economic trends over the next decade, but its global lead could falter without appropriate government policies. The United States is already highly competitive in services-producing sectors, which will continue to grow in economic importance. The United States maintains strong talent pipelines in sectors that are expected to be among the fastest growing, such as health care and information and communications technology (ICT). The United States can also ride two connected trends on the goods-producing side of the economy: the declining importance of labor-arbitrage in international trade, leading to the regionalization of supply chains; and

the increasing ubiquity of robotics and automation in manufacturing. The United States maintains high value added in knowledge- and technology-intensive industries (KTIs), a key indicator of proficiency in advanced manufacturing and services, including those that will undergird robotics, automation, and the formation of efficient regional supply chains.

The manufacturing sector, however, will continue to play a smaller role in the U.S. economy. The Federal Reserve Economic Data's (FRED) manufacturing production index, which measures manufacturing industrial production, shows steady growth since data became available in 1972, except during the Great Recession.¹ The average earnings of U.S. manufacturing production

workers have also grown unabated for decades, reaching over \$22 per hour as of May 2019.² However, the manufacturing sector makes up a smaller share of the total value-added output and jobs. The value added by manufacturing production as a percentage of GDP has fallen sharply, from 16.1 percent in 1997 to 11.2 percent in 2017.³ Manufacturing employment has shrunk from its 1979 peak of 19.5 million to around 13 million today.⁴ During the last recession alone, the United States lost 2 million manufacturing jobs and has yet to return to pre-recession levels. While manufacturing employment, even among production workers, has tracked slowly upwards since its 2009 nadir, the overall job market seems unlikely to reach its former scale.⁵ The U.S. economy has tipped away from manufacturing and toward service industries. Manufacturing value added has slumped, and value added by services ballooned from 71.8 percent of GDP in 1997 to 77.4 percent in 2017.⁶ Meanwhile, the gap between services and manufacturing employment has grown to historic levels.⁷ In June 1979, the United States only had about 2.5 service jobs for every manufacturing position; now, that ratio is nearly 8.5 to 1.

The long-term impact that Covid-19 may have on occupational growth is difficult to project, as is the impact of the inevitable future pandemics or other “black swan” events. The uncertainties are numerous. The pace of the pandemic’s decline, the timing of a potential vaccine or effective treatment, its potential for resurgence, the quality of response to new cases, and, perhaps most importantly, how societies may permanently change as a result of the pandemic will fundamentally impact the future of the labor market. Months after the outbreak, significant layoffs have taken place in hospitality, recreation, retail, travel, and other non-essential industries requiring in-person contact. The future of those industries depends on the variables described above, and therefore the employment picture is foggy at best. Other industries that require close contact between individuals in enclosed spaces—meatpacking, home health services, certain manufacturing and agricultural work, and some office jobs such as call centers—may lean into

automation in order to avoid some of the uncertainties associated with workers. A scenario in which jobs in these industries do not come back would put millions of people out of work for a sustained period of time and create a drag on growth.

Prior to the Covid-19 outbreak, the automation trend was projected to continue for at least roughly a decade. Employment in services-providing sectors was projected to grow annually by 0.6 percent through 2028, while employment in goods-producing sectors excluding agriculture was projected to grow annually by just 0.1 percent. Manufacturing employment was projected to continue to decline by 0.5 percent annually through 2028, the same rate of decline as from 2008 to 2018. In line with recent trends, the decline in manufacturing employment was not projected to bring about a decline in manufacturing output, which was expected to grow faster in the next 10 years than the previous 10 years. In the United States, services industries have expanded in the past few decades. Contributions to real GDP by financial services, information technology (IT), health care, and logistics have all experienced nearly unmitigated growth for the last 20 years. Services accounted for 75.5 percent of U.S. GDP in 2000 and 80.2 percent of GDP in 2017.

According to BLS projections made before the Covid-19 pandemic, the fastest-growing industries in the United States were projected to be health care, with a 1.6 percent annual growth rate, and private educational services, with a 1.2 percent annual growth rate. Due to a rapidly aging population, personal care aides could experience a 36.4 percent growth in employment by 2028, despite the median annual salary being only \$24,020 in 2018.⁸ Covid-19 may add to the growing demand for health care workers. The U.S. workforce must be prepared for the expected rise in demand in these services industries. Employment in utilities, wholesale trade, and retail trade is set to decline over the next decade, the latter bucking a growth trend from the previous decade. The pandemic is likely to accelerate declines in these sectors. Like manufacturing, however, declining employment does not equate to declining output. Indeed, wholesale

trade is projected to have the largest output growth in the next decade despite seeing the third-largest decline in employment among services-providing industries.

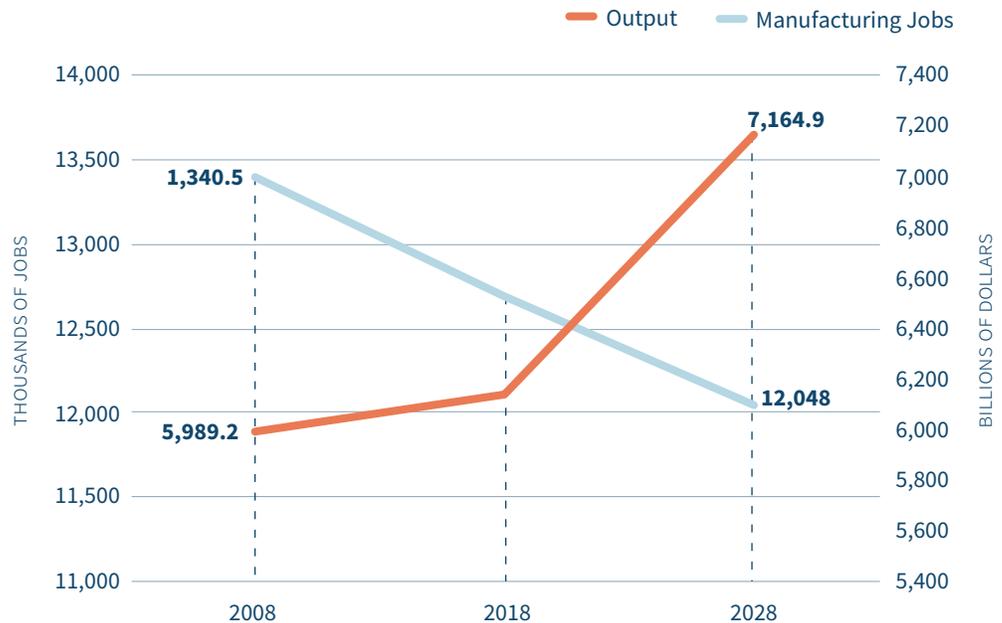
Growth may be slowed by the projected continued rise in inequality in the United States. Already at record levels, economic inequality creates a drag on overall growth and narrows economic opportunities across all segments of the population.⁹ Income inequality has been connected to social ills such as increased crime, health disparities, the opioid crisis, and political polarization.¹⁰ Through 2035, earnings are projected to decline or remain stagnant for workers outside of the top 10 percent of earners.¹¹ Following 2035, income inequality is projected to plateau; however, other factors such as unequal access to quality education, health care, housing, and other services will likely persist and contribute to inequality.¹² Further, advances in AI and automation may generate transition costs that disproportionately impact low-skilled, low-wage workers. The implications of AI and automation are further discussed in this section and the commission’s workforce report. Without intervention, the Covid-19 pandemic will also expand inequality.¹³ Job losses have been most severe for women, minorities, and low-income workers, some of whom also face disproportionate risk from the virus.

These macroeconomic trends should continue through 2030. It appears unlikely that the United States, already an advanced economy, will retreat from its services-driven growth model. For decades, the U.S. and global economies have grown increasingly services-oriented, a

transition that has occurred at a much faster rate than the centuries-long shift from agricultural to manufacturing production.¹⁴ Especially in the United States, the services sector will be buoyed by a world-class digital economy that will continue to be an engine for growth if the United States pursues the policies necessary to maintain it.

For similar reasons, developing economies such as China and India will consistently experience GDP growth at a higher rate than the United States and therefore will account for a greater percentage of the overall total. That said, faster growth in select U.S. services industries can expect to fuel the national economy for years to come. Robust intellectual property protection, government support for public and private R&D, strong graduation rates per capita in STEM (science, technology, engineering, and mathematics) fields, and relatively favorable demographics provide the United States with a foundation for the services industry and advanced manufacturing to grow. However, that foundation rests on continued support for policies that undergird the positive features of the U.S. economy.

FIGURE 1 / Manufacturing Productivity on the Rise as Employment Shrinks



Source: U.S. Bureau of Labor Statistics.

On the other hand, concerns about the demise of U.S. heavy manufacturing seem contradicted by production levels of motor vehicles, a key indicator of a developed, high-value-added manufacturing sector. The United States did see production plummet during the last recession, but it also has experienced a significant rebound.¹⁵ Automobile sales in the United States peaked in 2017; however, the decline in sales since then has not been dramatic, which suggests the industry is relatively resilient amid sustained consumer demand. In 2019, U.S. consumers purchased over a million more automobiles than in 2007. Global motor vehicle demand has crept upward, leading to regionalization of production in only a handful of countries, such as the United States, Japan, Germany, South Korea, and increasingly China.¹⁶ Despite slowing sales in the United States, China, and elsewhere, global production and demand remain well above levels during the 2008 recession. Leading automotive companies are among the top spenders on R&D globally and are quickly shifting investment toward high-tech components and upgrades, reflecting the industry's perception that it will need to adopt advanced technology to remain competitive.