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"Globalization and Labor" by Frank Ackerman

Two trends have reshaped the nature and location of work over the course of the last few decades. The world economy has become increasingly integrated: rising levels of trade, foreign investment, and migration are connecting national economies to each other; in particular, many developing countries are rapidly expanding their manufacturing production and exports. At the same time, developed countries have had declines in manufacturing employment, often accompanied by stagnant or falling real wages, leading to increasingly bleak job prospects for workers with limited skills.

Is there a causal relationship between these two trends, or just the coincidence of simultaneous appearance? Is globalization responsible for the plight of industrial workers in developed countries, or should we be looking for a different culprit? In the words of the title of one of the articles in this chapter, if we listen to jobs leaving for lower-wage destinations abroad, do we hear a giant sucking sound or a small hiccup? The questions are not rhetorical, and the answers are not obvious; there are strongly held, carefully argued and documented positions on both sides.

This chapter begins with six articles drawn from the lively debate over the effects of trade on wages and employment levels in developed countries. It then turns to four articles examining the impacts of globalization on particular aspects of work, and concludes with two articles on policy responses to the problems of the global economy.

TRADE, TECHNOLOGY, AND MEASUREMENT

The first problem is to explain why there is a debate at all. Casual observation suggests that the giant sucking sound of jobs heading south is unmistakably audible. There is ample anecdotal evidence that some factories do indeed move to Mexico, Southeast Asia, or elsewhere in pursuit of cheaper labor. Moreover, conventional economic theory implies that (under the usual, unrealistic textbook assumptions) free trade would lead rich countries to specialize in capital- and skill-intensive products, while poor countries would specialize in unskilled-labor-intensive products; as a result, wages would rise for skilled workers in rich countries, and for unskilled workers in poor countries. In this simple model, employment and wages for unskilled labor in rich countries should fall, just as has happened in recent years.

There are economists who would agree with the casual observer, although they appear to be in the minority among economists who have examined the question. One of the most prominent members of this minority is Adrian Wood, who presents his analysis of the effects of trade, and responds to critics of his earlier work, in the first article in this section. Wood maintains that declining barriers to trade, due to technological change and declining costs in transportation and communication, have led to increased international specialization, as predicted by simple trade models. Several types of evidence are consistent with this view. Among developed countries, there is a clear, negative correlation between changes in the share of employment in manufacturing, and manufactured imports from developing countries as a percentage of GDP. Within the U.S., declines in output have been most rapid in the industries that are most reliant on unskilled labor.

Wood identifies several important factors that are omitted from simple statistical comparisons, all of which suggest a greater role for trade in reducing the demand for unskilled labor in developed countries. Some of the most labor-intensive industrial processes, such as assembly of electronic consumer goods, have almost entirely moved to developing countries; thus analysis of developed-country employment tends to overlook the labor content of these processes. Competition from low-wage producers has led to "defensive innovation," introducing technology that reduces the demand for unskilled labor in high-wage countries. (This point reveals the difficulty of separating the effects of trade and technology; in practice, it will be almost impossible to distinguish between defensive innovation and technical change unrelated to trade). Labor-intensive services such as data entry are increasingly performed in developing countries, but do not show up in studies restricted to manufacturing. Wood's admittedly rough estimate is that, as of 1990, trade with developing countries reduced the demand for unskilled labor in developed countries as a whole by about 20 percent.

Nonetheless, as suggested by Wood's detailed responses to his numerous critics, his is not the majority position among economists.[1] An influential version of the majority view is presented here in the article by Robert Lawrence and Matthew Slaughter. There is no doubt about their answer to the question posed in their title; they find that, if we listen carefully, we hear only a small hiccup. To demonstrate this, they introduce a numerical comparison that at first glance seems almost unrelated: a recalculation of the relationship between employee compensation and productivity in the U.S. in the 1980s. This calculation is relevant because, in an idealized competitive market, hourly wages and labor productivity should increase at the same rate. Lawrence and Slaughter view the apparently wide gap between productivity and wage growth in the 1980s as potentially strong evidence that some external factor, such as trade, was depressing wages. However, they show that with a surprising but sensible-sounding recalculation of the data on employee compensation, the gap all but disappears. The absence of a gap between compensation and productivity implies the absence of a trade effect on wages.

For these authors, other data also point in the same direction: most U.S. manufactured imports come from other high-wage countries; the U.S. terms of trade (ratio of export to import prices) did not fall, as they should have if cheap imports were an important factor; the union/non-union pay differential barely changed (suggesting that unionized industry was not uniquely impacted by trade). Far more important, in their analysis, is the very slow growth of productivity in the areas where most workers are employed -- that is, outside of manufacturing. This slow productivity growth would be expected to cause slow real wage growth, which is of course what happened. While the problem is serious, Lawrence and Slaughter conclude that it must be understood in terms of technological change, or the lack thereof, in nonmanufacturing, largely nontraded, sectors of the economy.

The disagreement between Wood on the one hand, and Lawrence and Slaughter on the other, has a parallel among those economists who have been advisors and educators for the labor movement -- though the majority, within this circle, may be on the side that sees a larger effect of trade. Dale Belman and Thea Lee offer a thoughtful review of the literature, arguing that the impacts of trade are among the most important problems facing labor. They cite a number of studies finding substantial industrial job losses due to trade, and intriguing preliminary evidence that the employment impact of any given amount of trade may be increasing over time. Employment effects look larger than wage effects, they suggest, in part because the loss of low-wage jobs indirectly raises the average wage of those who remain employed. Responding to Lawrence and Slaughter's recalculation of the relationship between wages and productivity, Belman and Lee accept the underlying idea but not the specific data series used in that recalculation. Other data series embodying the same concepts show that there is a large gap between wage and productivity growth rates, demonstrating that there is potentially a "trade effect" to be explained.

Belman and Lee stress the use by employers of the threat of moving overseas as a means to win concessions from workers, even when no actual movement of jobs occurs. While trade may lower average wages, the evidence as they see it is stronger for trade as a cause of growing inequality of wages within the U.S. labor force. There is no need to argue about whether trade is the leading cause of the problems of industrial labor in developed countries; for Belman and Lee it is enough that trade is one of the very important problems, with clear, measurable effects.

An opposite perspective, equally written from the point of view of labor, is provided by the late David Gordon in his last book. He maintains that simple stories about both technology and trade are inadequate to explain the discouraging trends in wages and employment. Rather, the trends reflect corporate behavior and strategy, as suggested by Gordon's book title, *Fat and Mean.* In the chapter included here, he argues that technology leading to a skills mismatch between jobs and workers is not an adequate explanation of recent trends. Economists frequently treat technology as a residual, accounting for all unexplained effects, an approach that is prone to ambiguity and overstatement. Direct measurements of technological change have a hard time accounting for changes in wages and employment -- for example, the collapse in real hourly earnings began a decade before computerization became a significant factor in the workplace.

Regarding globalization, Gordon emphasizes, as do Lawrence and Slaughter, that the decline in wages was slower in manufacturing than in many nonmanufacturing sectors that are largely unaffected by trade. Moreover, most of the U.S. trade deficit in manufactured goods is with other developed countries, including Japan and Western Europe, where manufacturing wages are at least as high as in the U.S. Imports from countries with equally high or higher wages suggest that the problem lies in other factors, such as the productivity of U.S. manufacturing.

Macroeconomic factors cannot be ignored; in the early 1980s, when the U.S. trade deficit first became a pressing problem, the value of the dollar was rising rapidly relative to other currencies, making imports a bargain.

The last article included here on the trade debate presents a somewhat different perspective. Moving beyond the debate on the aggregate impacts of trade, Dani Rodrik suggests that trade has increased the elasticity of demand for unskilled labor: due to global competition the same change in wages now leads to a larger change in employment than before, since it has become easier to substitute foreign labor for domestic. A strength of this analysis is that it applies to trade between developed countries, as well as with lower-wage competitors. If two countries with equal wages open their economies to trade with each other, there is no reduction in the demand for unskilled labor, but there is a new barrier to wage increases in one country if they are not matched in the other country. Skilled labor, often performing more differentiated tasks, is subject to the same effect to a much smaller extent. Greater elasticity of labor demand leads not only to a weakened bargaining position for unions, but also to greater volatility of employment levels. Volatility of employment has increased, particularly for the least-skilled workers, and is a major contributor to the growing inequality of incomes.

While the debate is interesting and illuminating, it is difficult to come to a decisive yes-or-no resolution. There is a strong case for trade effects as one of the important causes of the declining prospects for low-skilled labor in developed countries, but also a strong case for the view that other effects must be of equal or greater importance. Perhaps the most surprising conclusion is the difficulty of precisely defining and measuring the effects of trade, and the extent to which the evaluation of these effects rests on a series of subtle technical judgments. The difference between a giant sucking sound and a small hiccup, unfortunately, depends on exactly how you listen.

GRAPPLING WITH GLOBALIZATION

The effects of globalization on work can also be examined on a more detailed, specific level. Even among the developed countries there is a broad diversity of impacts and responses. Much of the discussion so far has drawn on U.S. data, or on international comparisons that inevitably exclude most country-specific experiences. As a general rule, the smaller a country is, the more it tends to be dependent on foreign trade; small developed countries have always had to cope with "globalization," evolving varied strategies for integrating trade and employment policies.[2]

Among developed countries, Japan has a unique system of labor relations in many ways. Until the 1990s, Japan also had a consistently rapid rate of growth, leading to frequent suggestions by foreign observers that copying the Japanese model was a key to growth. Admiration for Japan's success intensified in the 1980s, as other developed countries entered a period of slow growth, rising unemployment, and stagnant or declining wages.[3] However, when the speculative "bubble" of 1988-90 burst, Japan entered an economic slump of its own; the worldwide slowdown now merely seems to have arrived a decade later in Japan than elsewhere.

The article by James Lincoln and Yoshifumi Nakata, summarized here, is one of the first academic analyses of the impact of the stagnation of the 1990s on the Japanese employment system. The legitimacy of traditional practices remains a powerful force, and corporations have gone to considerable effort to bend rather than break the precedents set in more expansive times. The famous system of permanent employment was available, even in good times, only to roughly one-third of the labor force, largely the male employees of big companies. Now it is being constrained, though not abandoned, through increased hiring of temporary workers, pressure to accept early retirement, transfer of permanent employees to less prestigious, lower-paying jobs with subsidiaries and suppliers, and a gradual shift from salary increases based almost entirely on seniority toward monetary rewards for merit, performance, and technical skills. The authors emphasize, though, that the changes have thus far been only incremental, and that Japanese employment practices remain distinctively shaped by the country's traditional institutions.

Low-skill, labor-intensive industries in developed countries are down but not out; the surviving firms in such industries have somehow found ways to cope with low-wage foreign competitors. This is where the grim image of a "race to the bottom" arises, as the poorest nations seem to force everyone else's wages down to their level. The article by Evelyn Blumenberg and Paul Ong looks at the U.S. apparel industry in three regions: New York, North Carolina, and southern California. Nationally, the industry suffered both job losses and real wage declines after 1970, as foreign competition intensified. In each of the three regions the industry responded by shifting its employment to a lower-status, lower-wage demographic group: recent immigrants, particularly from China, in New York, black women in the South, and Hispanic and Asian immigrants in California. Even after moving down the demographic ladder, the industry appears to be thriving only in California; in all areas, its short-run survival seems to rest on the introduction of what the authors call "Third World working conditions."

A more direct analysis of Third World working conditions is the subject of the next two articles. Lourdes Beneria assesses the effects of globalization on women's work roles around the world. Although the expansion of multinational capital has begun to transform women's work and depends on women workers, Beneria points out that only a tiny fraction of the female labor force in developing countries actually works for international firms. More often, women remain employed in agriculture, services, or other activities in the informal sector, frequently outside the world of wage labor. Those who do work in the modern sector in expanding economies are valued not only for their lower wages, but also because they are thought to be more easily controlled and more willing to accept varying or irregular hours of employment. The view that women have "nimble little fingers" is significant in hiring for some kinds of assembly work. While work in the modern sector brings economic opportunities to some, global integration has also brought the extraordinary exploitation of sex-related tourism, a shameful growth industry that employs large numbers of poor women in several countries. There is no single meaning of global integration for women; age-old inequalities are likely to persist in new forms unless there is a conscious effort to change them.

The effects of the global economy on work in developing countries differs from one region to another; many aspects of the problem must be examined at the regional, if not national, level.[4] Hernando Gómez Buendía offers a unique perspective on the longstanding dualism of leading Latin American economies and its implications for employment relations. A small modern sector has emerged, with, in theory, nearly European conditions of employment, benefits, and legal protection. The basis for this modern sector is the early strength of the region's export industries, followed by a period of import substituting industrialization; unionization of these industries, combined with populist traditions and Catholic social influence, led to outstanding labor-oriented legislation. Yet modernization did not continue to expand, and in reality, Latin American nations cannot afford to extend their ambitious labor and social legislation to a majority of workers. The large informal sector continues as a labor market buffer; workers forced out of formal employment are more likely to end up in the informal sector than in the small pool of the formally unemployed. Gómez ends with an impassioned advocacy of the development of new public policies that will lead to meaningful formal employment for all who want it.

RACING BACK FROM THE BOTTOM: POLICY RESPONSES

In view of the diversity of experience and impacts of globalization, the near-impossibility of national control of international trends, and the apparent pressure to engage in a race to the bottom, what can be accomplished by public policy responses? The simplest response, protective tariffs or quotas as barriers against trade, receives almost no support among economists, at least as a policy for use in developed countries (and even its use in poor countries has become controversial, as earlier import substitution strategies have generally been abandoned). What else, then, is possible? At least two answers have been suggested, which are the subjects of the last two articles in this chapter.

Debate about trade policy and labor has often focused on the possibility of imposing international labor standards. Is it reasonable to demand that all countries meet certain minimum standards in terms of working conditions? If so, how high should the standards be? Should developed countries refuse to import goods from nations that fail to meet the standards? The dilemma is that, as Alice Amsden has explained,[5] too high a standard -- for instance, demanding that a country like Mexico adopt U.S. minimum wage, child labor, and hours-of-work standards within ten years -- is unaffordable, and amounts to little more than a new form of protectionism. Yet no standards, or too low a level, may mean that none of the world's workers, North or South, are assured of prospering from globalization.

In the article summarized here, Eddy Lee reviews the recent literature on labor standards, finding a frustratingly wide range of conflicting views. While there is essentially universal agreement with the goals of labor standards in areas such as limits on child labor, protection of worker health and safety, and other social goals, there is no such uniformity in the economic analysis of potential standards. The effects and the desirability of the unilateral imposition of standards continue to be debated; some argue for the moral imperative of standards, while others emphasize the economic gains from free trade. One view proposes that labor standards are a form of public good, which everyone wants but no one can afford to introduce alone; others would say that standards are a suboptimal interference with the market, and that economic growth will eventually raise standards more effectively than any public intervention.

Despite hopes for concerted international action, public policy will largely continue to be made on a national basis for the foreseeable future. What, then, can a single country do about the pressures of trade? For our final article, we return to the author whose work opened this chapter. Adrian Wood, who argues that trade does hurt unskilled labor in developed countries, nonetheless rejects protectionist policies, and offers a range of alternative suggestions. Wood proposes a combination of education and training programs, measures to increase the demand for unskilled labor (either public works spending, or taxes and subsidies to stimulate private sector employment), and redistribution of income to provide for those hardest hit by trade. He addresses the difficult problems of financing these initiatives, recognizing the danger of creating perverse incentives: making it too attractive could stimulate an increased supply of unskilled labor. Differing labor market conditions in America and Europe call for somewhat different policy approaches.

Wood's final point focuses on the human impact of these policies, and provides a fitting note on which to end the discussion. As shown in the articles summarized earlier in this chapter, there is considerable uncertainty about the magnitude of the future impacts of trade on labor. In terms of the policy responses Wood proposes, there is a danger of doing too much, if the problem turns out to be small, and an opposite danger of doing too little if the problem turns out to be large. The human costs of providing too much education and training, job creation, and income support seem far less serious than the costs of providing too little.

Notes

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1. In addition to the Lawrence and Slaughter article summarized here, other statements of the majority view include Richard Freeman, "Are your wages set in Beijing?", *Journal of Economic Perspectives* 9 no. 3 (Summer 1995), 15-32, Jagdish Bhagwati and Marvin Kosters, editors, *Trade and Wages: Leveling Wages Down?* (Washington DC, 1995: AEI Press), and Paul Krugman, "Does Third World growth hurt First World prosperity?", *Harvard Business Review* July-August 1994, 113-121.
2. For a comparison of two very different trade policies, each of which allowed a small developed country to sustain full employment for several decades, see Deborah Mabbett, *Trade, Employment, and Welfare: A Comparative Study of Trade and Labour Market Policies in Sweden and New Zealand, 1880-1980* (New York: Oxford University Press, 1995).
3. One of the best analyses from this era, including an extensive analysis of the Japanese employment system and review of other literature on the subject, is William Lazonick, "Cooperative employment relations and Japanese economic growth," in Juliet Schor and Jong-Il You, editors, *Capital, the State, and Labour: A Global Perspective* (Aldershot, UK; Brookfield VT, US: Edward Elgar/United Nations University Press, 1993).
4. For an ambitious attempt at broad regional analyses, see Robert Boyer, "Do labour institutions matter for economic development? A "régulation" approach for the OECD and Latin America with an extension to Asia," in Gerry Rodgers, editor, *Workers, Institutions, and Economic Growth in Asia* (Geneva: International Institute for Labour Studies, 1992).
5. Alice Amsden, "Macro-sweating policies and labour standards," in Werner Sengenbrenner and Duncan Campbell, *International Labour Standards and Economic Interdependence* (Geneva: International Institute for Labour Studies, 1993).