LABOR IN THE ERA OF GLOBALIZATION

EDITED BY
Clair Brown,
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CAMBRIDGE

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Introduction

Labor in the Era of Globalization

Clair Brown, Barry Eichengreen, and Michael Reich

Seen in the rearview mirror, the third quarter of the twentieth century was a golden age for labor in the United States, Europe, and Japan. Unemployment was low and earnings and employment growth were strong. Employment relations were shaped by an implicit agreement between employers and unions in which workers traded wage moderation for expanding employment opportunities. All was not "sweetness and light," to be sure. One must guard against idealizing the past and recognize that distance can distort. Recall the warning that graces the rearview mirrors on recent-vintage U.S. cars: "Caution: Objects may be closer than they appear." Still, it is not too much of a distortion to argue that the majority of workers in the United States, Europe, and Japan were confident that their economic circumstances would improve from year to year.

Sometime in the fourth quarter of the century, this situation began to change.[1] After President Ronald Reagan's firing of striking air traffic controllers, employer resistance to unions took off and the power of labor, already on a downward trend, went into rapid decline. In the United States, wages for male workers stagnated and health and pension benefits for many workers began to erode. In Japan, the winding down of miracle growth in the 1970s and then the onset of a decade-long

[1] For a more detailed discussion of the perspective presented here, see our recent works: Clair Brown et al., *Economic Turbulence: Is a Volatile Economy Good for America?*, University of Chicago Press, 2006; Barry J. Eichengreen, *The European Economy Since 1945: Coordinated Capitalism and Beyond*, Princeton University Press, 2007; and Michael Reich, *Labor Market Segmentation and Labor Mobility*, Edward Elgar Publishing, 2008.

slump at the beginning of the 1990s challenged the system of lifetime employment. As growth rates slowed in Europe and joblessness rose, labor-market arrangements once lauded for their stability were increasingly disparaged for their rigidity. Although levels of unemployment varied with institutional arrangements and the cycle, there was a tendency toward higher joblessness in all three economies.

There was also more differentiation among workers. In the United States, a growing gap between white-collar earnings and stagnant blue-collar wages became increasingly apparent. In Europe, there was chronic unemployment, especially long-term unemployment, making it difficult for young people in particular to secure a foothold in the labor market. In Japan, the labor force was segmented between regular workers, who enjoyed employment security, career development, and salaries that rose with tenure, and irregular workers, who received low wages, had uncertain tenure, and received little training. More generally, there was evidence of widening gaps in earnings and job security between the more and less skilled, the white and blue collar, and the earlier and later cohorts. Labor-market conditions became more volatile, outcomes less predictable. Among the casualties of these changes was confidence that the typical worker's circumstances would improve from year to year.

Although the impact of these developments is most evident in the ranks of the less skilled, more skilled workers have not been immune to the effects, especially in the United States. Unprotected by union contracts providing seniority-based wage scales as in Japan or by job security as in Europe, experienced professional workers in the United States face a labor market that may not offer them another good job when their last one ends. As they age, many have taken jobs in which they receive lower earnings and fewer hours – in a revival of a pattern last witnessed in the nineteenth century.

What gave rise to this great unraveling? The obvious place to start is with the familiar list of the forces that were reshaping markets. This list begins with the onset of a new technological era that disrupted established industries, placed a greater premium on labor-market flexibility, and raised the returns to skilled labor while eroding returns to their less skilled counterparts. In the prototypical example, the robots increasingly used on motor-vehicle assembly lines undercut the demand for autoworkers while boosting the demand for those engaged in designing those robots and deciding how to deploy them. The result was the decline of secure, well-paid jobs on assembly lines and rising economic inequality.

A second popular suspect is globalization. As long as they remained sheltered from foreign competition, firms earned rents that could be shared with their workers. As declining transport and communications costs, successive global trade rounds, product market deregulation, and regional integration eliminated this shelter, forcing firms to compete on global markets, employers cut back on wages, health insurance, and other benefits in the scramble to survive. By the 1990s, workers in the advanced countries were competing with hundreds of millions of low-wage workers in China and other developing economies as these countries entered the global market. This significant change in global supplies of skilled and unskilled labor – for that is what China's emergence as the assembly platform for a wide range of manufacturers effectively entailed – plausibly had a negative impact on the employment prospects of less-skilled workers in the advanced economies.

A third explanation for the growing gap between skilled and unskilled workers focuses on their relative supply, especially in the United States. Until recently, the educational attainment of every generation of post–World War II Americans was higher than its predecessor; that is, relative supplies of skilled labor more or less kept up with demand. In recent decades, however, rates of growth of high school and college graduation tailed off. This could reflect underinvestment in early childhood public schooling, the growing gap between the costs of higher education and the financial resources of middle-income families, the dysfunctional character of many inner-city schools, or the special challenges facing specific socioeconomic groups. What is clear, for the United States if not also for Europe or Japan, is that a declining rate of growth of supplies of skilled labor translated into a larger skill premium and greater inequality between skilled and unskilled workers.

A fourth explanation focuses on the immigration of unskilled workers to the United States. The growth in the number of unskilled workers has been matched by an increase in the demand for such workers, many of whom are employed in "McJobs" in the service sector that pay less than the assembly-line jobs that have been lost. Here again, the comparison with Europe is revealing because Europe too has seen growing numbers of largely unskilled immigrants but not the emergence of significantly larger skill premiums.

However, if these four forces are the obvious place to start, they are not also the appropriate stopping point. Their impact is amplified or dissipated by institutions, norms, and culture in Europe, the United States, and Japan. Among other factors, differences in the prevalence of trade unionism, in the structure of financial markets, in education and training policies, and in tolerance for wage and income equality shape how their economies respond to the pressures described herein. Although union membership has been declining in much of Europe and Japan, the proportion of workers covered by collective-bargaining contracts has declined much less in some countries than in others. In Germany, works councils and collaborative apprenticeship and training programs continue to function even as the so-called Hartz reforms have scaled back labor-market regulation. Similarly, union membership has remained high in the Netherlands, Denmark, and elsewhere in Scandinavia as unions have assumed an expanding role in unemployment insurance and retraining programs.

The United States, for its part, has an advantage in the development and application of radical new technologies as a result of its well-developed venture-capital industry and world-class universities. Meanwhile, patient banks and collaborative training schemes have helped Europe to maintain its advantage in quality manufacturing. In the United States, social norms more tolerant of income inequality contributed to declining minimum wages and to the expansion of a lightly regulated financial system (e.g., witness the growth of the hedge-fund industry with its 2 + 20 compensation scheme, where fund managers receive a fee of 2 percent of the amount invested and 20 percent of the returns) as well as to U.S. corporate governance arrangements with high-powered incentives for CEOs, leading them to focus on the current quarter's bottom line. In Europe, in contrast, there has been an effort to update Social Democratic corporatism with its emphasis on high minimum wages, limited inequality, and living wages to meet the need for greater mobility in the twentieth century. The case of Danish "flexicurity," in which job protections were radically scaled back but workers were still offered generous support – including in the form of retraining schemes – is a reminder that institutions, although influential, are not set in stone; they respond to changing circumstances.

There is no consensus on the relative importance of these factors in explaining recent trends in labor markets and industrial relations. This is not surprising, not least because the same factors have operated with different degrees of force in different economies. They have been superimposed on different prior conditions. It follows that analysts whose views are informed by the experience of different countries reach different conclusions. Another explanation for the absence of consensus is a fundamental identification problem. There are multiple hypotheses but only one data point.