

Distressed Workers: What Has Globalization To Do With It?

By

Jagdish Bhagwati

The author is University Professor at Columbia University and Senior Fellow at the Council on Foreign Relations. The author of In Defense of Globalization, to be reissued with an Afterword, he is finishing a new book titled Terrified by Trade.

We have recently witnessed a flurry of comment in the United States on the longstanding stagnation of wages. Many believe that even the “middle class” is at risk.

Lou Dobbs of CNN, the labour groups’ think-tank Economic Policy Institute, and nearly all the Democrats newly elected to the Congress, believe that globalization has much to do with the economic distress of the working and the middle classes. Therefore they have coherence on their side when they want to lean on the door, even to close it, on trade with poor countries and occasionally on unskilled immigration from them. But the proponents of globalization, who typically skirt and hence accept this “distributional” critique of globalization and nonetheless propose that those adversely affected should accept globalization but be aided so as to cope with their affliction in other ways, find themselves in a politically implausible position. Indeed, if it pours, we do not have the means to turn the torrent into sunshine and must open an umbrella. But man allows globalization; and men can turn it off.

As it happens, however, the proponents of globalization are on firmer ground than they fear. Examine the common arguments linking globalization to the distributional distress; and little survives.

First, all empirical studies, including those done by some of today’s top trade economists (such as Paul Krugman and Robert Feenstra), show that the adverse effect of trade on wages is not substantial. My own empirical investigation in fact concludes that the effect of trade with poor countries may even have been to moderate the downward pressure on wages that rapid unskilled-labour-saving technical change would have caused.

Second, the same goes for the econometric studies by the best labour economists today, regarding the effects of influx of unskilled illegal immigrants into the United States. The latest study by George Borjas and Larry Katz, once necessary adjustments are made, also shows a virtually negligible impact on workers' wages.

Can it be that globalization has reduced the bargaining ability of workers and thus put a downward pressure on wages? I strongly doubt this. First, the argument is not relevant when employers and workers are in a competitive market and workers must be paid the going wage. As it happens, only under 10% of the workers in the private sector in the US are now unionized. Second, if it is claimed that acceleration in globalization has decimated unionization, that is dubious. The decline in unionization has been going on for longer than the last two decades of Globalization, shows no dramatic acceleration in the last two decades, and is to be attributed to the union-unfriendly provisions of the half-century-old Taft-Hartley provisions that crippled the ability to strike. But then, has the outflow of direct foreign investment caused a decline in the capital which works at home with unskilled labour and hence to a decline in wages? But, as I look at the data, the US has received more or less as much equity investment as it has lost over the last two decades. One cannot just look at one side of the ledger.

The culprit is, not globalization, but labour-saving technical change which puts pressure on the wages of the unskilled. Technical change happens to be continually economizing on the use of unskilled labour. Much empirical argumentation and evidence exists on this. But a telling example comes from Charlie Chaplin's famous film, Modern Times. Recall how he goes berserk on the assembly line, the mechanical motion of turning the spanner finally getting to him. Try to see such an assembly line today and the

chances are you will not succeed. Yes, there are assembly lines today; but they are without workers; they are managed by computers in a glass cage above, with highly skilled engineers in charge.

Such technical change is quickly spreading through the system. This naturally creates, in the short-run, pressure on the jobs and wages of the workers being displaced. But we know from past experience that we usually get a J-curve where, as productivity increase takes hold, it will (except in cases where macroeconomic difficulties may occur and are not addressed by macroeconomic remedies) get to increase the wages. So, why has there been no such effect, at least a significant effect, in the statistics on wages for almost two decades?

I suspect that the answer lies in the intensity of displacement of unskilled labour by IT-based technical change and in the fact that it is continuous now, unlike discrete changes like the invention of the steam engine. So, before the workers get on to the rising part of the J-curve, they run into yet more such technical change, so that the working class gets to go from one declining segment of the J-curve to another, to yet another. The pressure on wages gets to be relentless, lasting over longer periods than in earlier experience with unskilled-labour-saving technical change. But this technical change, which proceeds like a tsunami, has nothing to do with Globalization.