International

U.S. Workers Benefit From Globalization

Oxford Analytica 07.11.08, 6:00 AM ET

Wage inequality between less-skilled workers and highly skilled ones has widened sharply since the 1970s in the U.S. The notion that increased competition from developing countries may be suppressing the wages of some U.S. workers has become the subject of intense political controversy--and has inspired protectionist political rhetoric.

Since the 1980s, economists have debated about whether increased trade and wage inequality are linked:

Case for small impact.
Some argue that more trade makes little difference to U.S. wages. They point out that imports from developing countries are small when compared with the total output of developed economies. Three-quarters of international trade is conducted between developed countries.

These economists also argue that increased wage inequality between the low- and high-skilled workers is best explained by technological improvements, as low-skilled work is more efficiently performed by machines. The diminishing power of trade unions and a slowly expanding welfare system may also play a role:

1. Robert Baldwin and Glen Cain have argued that trade pressures account for 9%, at most, of the growth in wage inequality from 1977 to 1987, and even less thereafter.

2. Paul Krugman and Robert Lawrence suggested that increased manufacturing trade will reduce wages only if one can observe falling prices; on the whole, this has not happened. Stagnant prices are, they argue, due to the the falling price of investment technology--not the price of labor.

Microeconomic counter-arguments. Closer analysis at the microeconomic level, however, has arrived at starkly different conclusions:

--**Exporting industry impacts.**
Bob Anderton and Paul Brenton found that outsourcing of stages of production in textiles, rather than trade in finished goods, contributed significantly to wage inequality in the textiles sector. Furthermore, Jon Haveman showed that displaced workers who produced export products suffered 37 weeks of unemployment, compared with 21 to 22 weeks for workers who produced goods for the domestic market.

--**Low-skilled worker focus.**
Adrian Wood has argued that previous studies underestimate the relationship between trade and skills because they tend to use data for the average worker. In fact, trade with the developing world is most likely to affect the least skilled.

--**Regional vulnerabilities.**
Edward Leamer discovered that in sub-regions with concentrations of low-skilled workers, such as the U.S. Rust Belt, trade can affect wages and employment prospects since these regions often compete with developing countries. Workers in other regions, however, may benefit from trade.

Therefore, the impact of globalization on U.S. jobs emerges on a microeconomic level. De-industrializing regions in the Midwest and Northeast--particularly in the textiles, clothing, steel and semi-conductors sectors--have faced stiffer foreign competition. While better technology and liberal economic policies have played a significant role, competition from other countries in low-skilled manufacturing work has strengthened the relationship between skills and earnings and has increased wage inequality.

Yet more U.S. workers benefit from increased trade than suffer from it. Freer trade will play a crucial role in boosting long-term U.S. growth prospects, encouraging efficient technology transfer, increasing returns-to-scale for companies and offering cheaper consumer goods. For developing countries, trade boosts employment and income. Globalization reduces disparities in global income, reducing the potential for conflict over resources, cutting poverty and poor health and stemming migration flows.

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