Slouching Towards Utopia?: An Economic History of the Long Twentieth Century, 1870-2016

XXII. Hyperglobalization

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22.1. Hyperglobalization and Income Distribution

In the last thirty year of the twentieth century, the demand for lesser-skilled workers fell sharply in advanced industrial countries. In western Europe that decline in demand showed itself as a rise in unemployment. In the United States this fall in demand showed up as falling real wages for lesser-skilled men. Both the left and the right blamed increasing world trade for this fall in demand for the work of the lesser skilled--and especially increasing imports from developing economies. This was a striking turnaround from earlier positions: in the 1960s and 1970s developing countries had feared "unequal exchange" and immiserization from trade.

The argument was that the increase in income inequality had come about at the same time as a sharp rise in world trade. In the United States imports were six percent of GDP in 1970 (and exports six percent as well), but were twelve percent of GDP in 1990 (and exports were ten percent, as Americans borrowed some two percent of GDP from foreigners to finance investment). Imports from low-wage countries were, it was argued, destroying the jobs of Americans.

Never mind that if imports destroy then exports create, and foreign-financed investments create jobs--and the fact that imports must by arithmetic equal exports plus net foreign-financed investment creates a strong presumption that the net employment effect of trade is zero. But the fact on which critics of trade rested their case turned out not to be a fact at all: manufacturing imports were not increasing as a share of the American economy.

In 1975, the average non-oil import came from a country where the manufacturing wage was 60% of the U.S. level. By the early 1990s the average non-oil import came from a country where the manufacturing wage was 75% of the U.S. level.

How could this be? Consider: In 1975 Japan was a low-wage economy: its manufacturing wage was less than half of the U.S. manufacturing wage level. Think of it: Japan and Italy in as economies that had enormous labor cost advantages vis-a-vis the U.S. Today Japan is a high-wage economy: its manufacturing wage is higher than the U.S. In 1975 Taiwan, Singapore, and Korea were very low-wage economies with wage levels one-twentieth that of the United States. Today their manufacturing wage levels are about a third of the American standard. Because our trading partners are growing richer faster than new low-wage trading partners are appearing, the average wage in countries trading with the U.S. is increasing rapidly.

Doesn't this mean that international trade was placing more downward pressure on American wages in 1975 than it was in 2000? Doesn't this mean that the changing international economy has on net exerted *upward* pressure on American wages over the quarter century from 1975-2000? it would seem so.

Nor was there reason to believe that the reduction in the share of Americans who held blue-collar jobs was the result of expanded imports from the developing world. Blue-collar jobs as a share of total non-agricultural jobs had been falling steadily since 1945. Even more, blue-collar manufacturing jobs were being destroyed at a furious rate. But before the 1970s the lost jobs in one region and sector were generally being replaced—in absolute terms, if not as a share of the labor force—by new jobs in another region or sector.

Consider the career of my grandfather, William Walcott Lord, who was born in New England early in the twentieth century. In 1933, his Lord Brothers Shoe Company in Brockton, Massachusetts, was facing imminent bankruptcy. So he relocated his operations to South Paris, Maine, where wages were lower. The Brockton workers were devastated by this move, and by the widespread destruction of relatively high-paying blue-collar factory jobs across Southern New England. But in the aggregate statistics, their loss was offset by a bonanza for the rural workers of South Paris, who went from slaving away in near-subsistence agriculture to holding a seemingly steady job in a shoe factory.

The South Paris workers' good fortune lasted for just 14 years. After World War II, the Lord brothers feared that depression could return, so they liquidated their enterprise and split up. One of the three brothers moved to York, Maine; another moved to Boston. My grandfather went to Lakeland, Florida – halfway between Tampa Bay and Orlando – where he speculated in real estate and pursued non-residential construction. Again, the aggregate statistics didn't change much. There were fewer workers making boots and shoes, but more workers manufacturing chemicals, constructing buildings, and operating the turnkey at the Wellman-Lord Construction Company's Florida-based phosphate-processing plants and other factories. In terms of domestic employment, the Wellman-Lord Construction Company had the same net factor impact as Lord Brothers in Brockton. The workers were different people in different places, but their level of education and training was the same.

So, during the supposedly stable post-war period, manufacturing (and construction) jobs actually moved en masse from the Northeast and Midwest to the Sun Belt. Those job losses were as painful for New Englanders and Midwesterners then as the more recent job losses are for workers today.

Likewise, during the 2000s, American blue-collar jobs were churned more than they were destroyed.

In 1943, 38% of America's nonfarm labor force was in manufacturing, owing to high demand for bombs and tanks at the time. After the war, the normal share of nonfarm workers in manufacturing was around 30%. Had the US been a normal post-war industrial powerhouse like Germany or Japan, technological innovation would have brought that share down from 30% to around 12%. Instead, it has declined to 8.6%. Much of the decline, to 9.2%, is attributable to dysfunctional macroeconomic policies, which, since Ronald Reagan's presidency, have turned the US into a savings-deficit country, rather than a savings-surplus country.

As a rich country, the US should be financing industrialization and development around the world, so that emerging countries can purchase US manufacturing exports. Instead, the US has assumed various unproductive roles, becoming the world's money launderer, political-risk insurer, and money-holder of last resort. For developing countries, large dollar assets mean never having to call for a lifeline from the International Monetary Fund.

It is not.

From 2000-2019, the relative wage of the country from which the average non-oil import came to America fell sharply. China stood up, and China contributed a huge share of manufactured imports. Yes, there was a decline in the share of manufacturing jobs in America from 9.2% to 8.6% from the rise of China. (The North American Free Trade Agreement, contrary to what US President Donald Trump has claimed, contributed almost nothing to manufacturing's decline.) Yet the pace at which the share of Americans holding blue-collar jobs declined did not accelerate. Yes, goods imports from China crowded out American manufacturing jobs. But investment in America from China funded construction jobs. What devastated the standard of living of blue-collar Americans in the years after 2000 was not imports from China, but the financial crisis and the Great Recession.

And yet globalization—increasing international trade—continues to receive the lion's share of the blame for economic distress, even in the world's richer economies. Why is this? Harvard University economist Dani Rodrik frequently points out that as trade barriers decline, the net benefits from further reductions decline while the redistributions induced remain about the same in scale. The redistributions thus become very large relative to the net gains—and, in the limit, what we have is simply a near-zero sum redistribution, and a redistribution away from those who held some social power, or else they would not have been able to benefit from the trade barriers in the first place.

And there are different dimensions along which any country is divided. The shift in US employment from assembly-line manufacturing to construction, services, and caretaking had very little impact on the overall distribution of income in terms either of social class or of the shape of the income distribution curve. But it did have a large effect not the distribution by gender: the jobs closing down were traditionally not just blue-collar but male, and always remained overwhelmingly male. The jobs opening up were very different.

But there have been other factors at work. First and foremost, it is easy for politicians to pin the blame for a country's problems on foreigners and immigrants who do not vote. Back in 1890, when politicians in the Habsburg Empire routinely blamed Jews for various socioeconomic ills, the Austrian dissident Ferdinand Kronawetter famously observed that "Der Antisemitismus ist der Sozialismus der dummen Kerle": anti-Semitism is the socialism of fools. The same could be said of anti-globalization today. Second, more than a generation of inequitable and slower-than-expected economic growth in the global North created a strong political and psychological need for scapegoats. People want a simple narrative. They will find one.

Third, China's economic rise coincided with a period in which the global North was struggling to reach full employment. Successful economic readjustments do not happen when bankruptcies force labor and capital out of low-productivity, low-demand industries, but rather when booms pull labor and capital into high-productivity, high-demand industries. That the "China shock" hit a shaky economy made it much more likely that it would be perceived as, and that it would be, substantially destructive.

It is a fact that successful market adjustment via creative destruction does not just require open and competitive markets, global change, and price stability. It also depends on full employment and near-permanent booms, just as economist John Maynard Keynes had warned in the 1920s and 1930s. But the neoliberal order failed to prioritize—and even more so failed to deliver—consistent full employment. But when the economy was booming in the 1990s, complaints about NAFTA were very small and very limited: it was only after unemployment rose that it could be ginned up to be an issue in U.S. politics again.

22.2. Globalization and Growth

So if "globalization" did not impoverish the workers of major industrial economies, what has "globalization" done? The question is sharpened by thinking back to the pre-WWI *Belle Epoque*, which was as "globalized" as today. In pre-WWI Britain, in industry by industry British producers decried their losses of export share to German and American producers. My wheat-farming great grandparents in Illinois, whose prices hinged on European demand for grain would have been astonished to have been told that they were not part of an integrated economy.

So what is the difference? Are financial flows stronger and more important today? Probably not. *Net* capital flows as shares of world product are surely smaller than they used to be before WWI (although *gross* trading volumes are higher).

Is trade stronger and more important? Maybe: world trade as a share of world product is a bit larger. But the net embodied factor content of trade as a share of world product appears smaller, and the net embodied factor content is presumably what matters most for trade's effect on, say, the unskilled workers' wages.

How about labor? Is international migration more important?Certainly not: between 1850 and 1920 one in every ten people in the world *moved continents.* Post-WWII, post-1973, or even post-1990 world population flows are a far smaller share of world populations than in the old days.

So what is different? Why has "globalization" become such a powerful banner in the past decade? One possibility: back before the Belle Epoque, what you could transfer across national boundaries was limited--pretty much limited to the *commodity*, or the *security*. As long as you could pack it in a crate or an envelope, and send it across the sea (or over the telegraph lines), you could transfer it. If not, not. Call this "low bandwidth" trade. International transactions and linkages that required more in the form of cross-border linkage were very hard to accomplish.

Think of Ford's early post-WWI attempts to transfer its assembly-line productivity to Britain; of British and Japanese attempts to use Lancashire-manufactured textile machinery to achieve high productivity in factories in India or China; or of the frantic attempts of British investors--who had never imagined how easily Jay Gould would be able to buy the courts of New York--to extract bond coupons and dividends from the Erie Railroad that they "owned".

Today we have "high-bandwidth" trade and investment. The breadth of cross-national links has vastly increased. Back then you could not exercise corporate control across national borders. Now you can. Back then you could not transfer forms of organization to achieve home-country productivity in foreign production operations. Now you can. Back then you could not integrate design and specification in one country with production in another. Now you can.

There are counterforces: trans- or multi-national corporations are going to be a good candidate for someone to blame. We are beginning to see denunciations of "rootless cosmopolitans", of "Goldman-Sachsonomics", that somehow seem to me reminiscent of the old-style European contrast between good engineers and bad financiers. Where that will end up I do not know...

And this shift to "higher bandwidth" in international economic links is still hard to see in its impact on the aggregate numbers--yet. The modal service export from the United States in the 1990s was not a computer program written by a symbolic analyst in an office tower to program NC machine tools oiled by someone in Malaysia, but was in travel and tourism--the modal service export was someone making a bed for a Japanese tourist outside of Yellowstone.

But perhaps all that critics of those who trace first-world income distribution to third-world exports are saying was *not yet***.** That the vision found in, say, Robert Reich's *Work of Nations*--one in which the division of labor becomes global at a very finely-grained level, and God help those citizens of rich countries who find themselves among the unskilled--was *not yet* a powerful force, at least as far as the U.S. economy was concerned. Think back to 1700, and note that then the "rich" countries had perhaps twice the material standard of living of the "poor", and that this relative gap has been widening since. By 1900 the industrialized "rich" had perhaps six times the material standard of living of the world's "poor" countries. And today? 20 times?

In the long run our descendants will probably not live in a world in which relative international differences in material standards of living are as large as today. And if by 2050 the gap between "rich" and "poor" has shrunk back to a factor of 6, I pray that it will have been by levelling up--by granting software programmers in Bangalore three-bedroom houses like those in Los Gatos, and by giving auto workers in Hermosillos high enough purchasing power to buy the cars that they make.