CAMPAIGN EDITION
30
May 2004

CARNEGIE ENDOWMENT
for International Peace

Policy Brief

Job Anxiety Is Real—and It's Global

Sandra Polaski
Senior Associate, Carnegie Endowment for International Peace

SUMMARY

These are not normal times. Two changes in the past decade have produced a huge global oversupply of labor and intense competition for an expanding array of jobs. First, the Cold War's end threw millions of workers, who formerly produced only for the socialist bloc, onto the global labor market. And second, that market has become integrated by technological change that now permits outsourcing of service as well as manufacturing jobs. The current economic recovery will not solve the resulting global mismatch of supply and demand, and it cannot be addressed by the United States alone. Many current policies aggravate the problem. This paper proposes that the United States revise its policies and devote a concerted effort to get the major countries to work together to expand employment at that global level. ■

This year's presidential debate has focused attention on disappointing job creation during the current economic recovery and spreading job insecurity in the United States. Are the job jitters justified? Are new worries about global outsourcing valid? Is something new happening in the labor market, something different from the normal business cycle?

The answer to all these questions is yes. That answer cannot be discerned from the monthly data on the U.S. labor market, which miss an essential part of what is happening: the growing integration of the U.S. and global labor markets. The years of very strong U.S. employment growth during the most recent business cycle cloaked the evolution of two long-term structural changes that have now emerged more clearly: a global oversupply of workers, and technological change that puts these workers in competition with each other. These changes will roil the U.S. jobs picture for the foreseeable future and suggest a need for policies and strategies dramatically different from those now being pursued.

Global Labor Market Supply

There is currently a global surplus of workers. It is primarily the result of the end of the Cold War and the collapse of the socialist economic system. Two global economic systems—with very separate labor forces, trade patterns, and investment pools—merged into one. The labor force of the formerly socialist economies in Russia, China, and Eastern Europe is being slowly incorporated into the global production system. This is also true of workers in countries like India that were more in the socialist economic sphere than in the capitalist sphere.

At the same time, the integration of the two formerly separate economic blocs has not brought a proportional increase of capital for investment in the now global system. Indeed, socialism collapsed partly because it could not generate investment finance on a par with the West and therefore fell behind in technology and productivity. Lack of capital was an important reason why China and India decided to open their economies to the world.

As a result, there is now too little capital and too much labor. The imbalance means

Sandra Polaski directs the Trade, Equity, and Development Project at the Carnegie Endowment for International Peace. She served as the U.S. secretary of state's special representative for international labor affairs from 1999 to 2002, playing a leading role in the development of U.S. government policy on international labor issues. Previously, she was the director of economic and labor law research for the North American Commission on Labor Cooperation, a NAFTA-related intergovernmental body. At the Carnegie Endowment, Polaski's research has included the impact of NAFTA on employment, wages, and household incomes, which was published in the report *NAFTA's Promise and Reality: Lessons from Mexico for the Hemisphere* (Carnegie Endowment, 2004). She has also written extensively on trade, development, and labor policy in essays including *Trade and Labor Standards: A Strategy for Developing Countries* (Carnegie Endowment, 2003) and *How to Build a Better Trade Pact with Central America* (Carnegie Endowment, July 2003).

heightened competition for jobs, downward pressure on wages, and growing profits for business. Until the labor surplus is worked off, we can expect to see higher profits and stagnant or declining wages in the high-wage countries. These trends already have affected the manufacturing sector, which has been transformed during the past decade. Now they are beginning to affect service industries.

The scale of the labor supply shock is unlike anything experienced before. These changes have brought the two largest countries in the world, China and India, fully into the global production system, along with hundreds of millions of workers in other formerly socialist countries. To put the size of the shock in perspective, if *all* U.S. jobs were moved to China, there would still be surplus labor in China.

Technological Change

New developments in information technology and communication capacity are turning what was once a segmented global labor market into an integrated whole, and putting white-collar workers in places like California in competition with millions of qualified workers in places like Eastern Europe and India. Software advances and huge expansions in global data transmission infrastructure have made it possible to share work across continents and oceans. The boom in telecommunications technology of the past decade created global overcapacity and drove down prices. Offshore outsourcing of data-intensive work has become not only feasible, but fast and cost-effective.

In the mid-1990s, corporations began to relocate information processing, software development, and customer call-center jobs to overseas locations, but, because of the factors noted above, job relocation now has kicked into higher gear with many more types of jobs being sent offshore. There is every reason to think the process will continue and indeed expand in a wide range of service industries. One estimate by Gartner, the information technology (IT) consulting firm, predicts that 25 percent of traditional IT jobs will be relocated to developing countries by 2010. The accuracy of forecasts, of course, is hard to gauge, but the logic of intense global competition in many service industries points in the same direction as firms with little power to raise prices look to cut labor costs.

Technological changes have also led to dramatic increases in worker productivity in both manufacturing and services. The stunning productivity growth in the United States is well known, but equally amazing productivity spurts have occurred in many developing countries due to both technology and the opening of their markets to greater competitive pressure. This is true in China, India, Mexico, and other countries. In the long term, this productivity growth is a good thing because it creates the possibility of higher wages and incomes in countries that experience it. But in the short term, it contributes to the disequilibrium in supply and demand in the global labor market as more products and services can be produced without a proportionate increase in workers, paychecks, and demand at the global level.

A Problem on a Different Scale

The oversupply in the global labor market now affects unskilled and skilled manufacturing jobs as well as skilled and unskilled service jobs. More classes of labor (that is, workers of different skill levels) are competing globally, and there are more contestants for each employment position. The final factor in this unbalanced equation is that because of productivity gains relatively fewer new positions now are created.

With these developments in mind, the disappointing performance of the U.S. labor market takes on a different character. Many economists attribute job insecurity in the United States to the inevitable process of job destruction and job creation. What they call "job churning" is one reason for workers' insecurity, but it misses the more fundamental operation of supply and demand. Churning in the U.S. labor market can no longer be understood entirely in domestic terms because many

of the jobs that are churned are now up for global competition. Because global labor markets are oversupplied, job creation will have to be much stronger, not just in the United States but also globally, to avoid unemployment and downward pressure on wages in this country.

This discussion is not meant to be apocalyptic. The global labor supply will eventually be absorbed into the now unitary global production system. But it is not going to be a short or painless process. Indeed, there are reasons to believe that it will get substantially worse before it gets better. Chinese and Indian workers began to be integrated into the global economy in the 1990s, but the real acceleration of job relocation to those countries did not occur until the late 1990s. We are at the starting point of this adjustment process, not the finish line. For example, Chinese unemployment is expected to grow for at least the next few years, even under the most optimistic growth scenarios, as the rural unemployed and workers laid off from state-owned enterprises continue to flood the labor market there. Even with strong global growth, the absorption of the global labor surplus will require at least a decade or more. Under more pessimistic growth assumptions, it may take a generation.

Politics and Policies

Both the Democrats and the Republicans know that job insecurity resonates with the electorate, and both parties are scrambling to respond with policy prescriptions. Some of the prescriptions are clearly appropriate, either to ease the pain of unemployed workers or to smooth the path of job creation. For example, job retraining and unemployment assistance programs for workers displaced by global job shifts should be available to service workers as well as to manufacturing workers. Tax incentives that favor job creation abroad over job creation in the United States should be eliminated.

The problem, however, is much larger than the sum of these domestic solutions. The world economy must work off the current oversupply of labor. The answer to oversupply, in the broadest terms, is to increase demand for labor at the global level.

That cannot be accomplished within the economy of the United States. The United States already consumes more than it produces; even if U.S. consumption were further stimulated through monetary or fiscal policy, it could not achieve the scale needed to solve the global problem. Policy solutions of an appropriate scale lie in the areas of trade policy and international macroeconomic policy, where levers exist to increase the demand for labor in multiple countries at once. Nonetheless, it is national governments, including the U.S. government, that must change current policies that reduce the demand for labor. National governments must negotiate with other countries to agree on steps that will hasten the absorption of the global oversupply of labor, and it is national governments that must resist beggar-thy-neighbor strategies.

To put the size of the global labor oversupply in perspective, if *all* U.S. jobs were moved to China, there would still be surplus labor in China.

Policy Solutions

Some current policies aggravate the oversupply of labor, dampen demand, add to downward pressures on wages and working conditions, and make it more difficult for other countries to counter the current labor imbalance. It is in these areas that a sensible policy review should begin. Achieving meaningful results will require a serious reorientation of U.S. trade policy as well as changes in the U.S. role in international macroeconomic policy. Here are several policies that should be changed:

Agricultural Trade Policy

Policies aimed at absorbing the global oversupply of labor should begin with the agricultural sector. In low-income countries, an average of 68 percent of the labor force is engaged in agriculture, and in middle-income countries the sector still employs 25 percent of workers on average. Policies that increase employment in the huge agricultural sector in poor countries should be sought, and we should avoid policies that distort agricultural trade and reduce such employment. Many developing countries possess a comparative advantage in agriculture because of an abundance of low-wage labor and fertile land. When trade is liberalized, these poor farm workers and their countries should benefit. Agricultural trade is highly distorted against them, however, by domestic and export subsidies that rich countries provide to their own farmers. As a result, rich countries often overproduce and sell crops on world markets below the cost of production, thereby depressing world prices for agricultural products. Poor-country farmers cannot compete with subsidized crops on world markets. Exports of poor countries shrink; their crops are displaced in their own domestic markets by foreign crops; and the prices they receive for what they sell are depressed.

The United States and the European Union (EU) are the biggest offenders. In the United States, farm subsidies, which date from the Great Depression of the 1930s, were originally intended to protect small family farmers, but the vast majority of U.S. agricultural subsidies now go to large corporate agribusiness. (See sidebar.) This harms U.S. taxpayers, and it devastates subsistence farmers in poor countries. U.S. trade negotiators have promised to address the distorting effects of agricultural subsidies in trade negotiations, but only if other rich, subsidizing countries will do the same. The United States insists that subsidies can be addressed only at the World Trade Organization (WTO), through the current Doha Round of trade talks, and not in bilateral or regional trade negotiations.

In practice, the United States has increased agricultural subsidies in recent years and has failed to show leadership in the WTO on agricultural negotiations. The Cancun trade meeting last September failed in large part because developing countries roundly rejected the lack of ambition by the United States and the EU in tackling this urgent problem. Those talks have been stalled ever since. Meanwhile, the United States has

U.S. Agribusiness Slimmer; the World Richer

U.S. agricultural subsidy payments to agribusiness corporations ranged as high as $426 million per firm from 1995 through 2002. The politics of changing this bad policy will not be easy because the subsidies are preserved by aggressive lobbying by some of the most powerful corporate interests in the United States.

However, with an increasing share of the U.S. workforce anxious about job security and wages, distorted agricultural policies, which benefit a few large corporations at the expense of the global labor force, are a bad trade-off for U.S. society as a whole. A better global distribution of agricultural production offers one of the best prospects for employment gains in the developing world and a faster-growing global economy. A further bonus is that a rollback of recently enacted increases in agricultural subsidies would free up at least $170 billion in the U.S. budget over the next decade, resources that could be used for job retraining and other programs to address employment insecurity.

proceeded with bilateral and regional trade negotiations, mainly with poor or very poor countries. In those talks it refuses to discuss subsidies while it insists that the poor countries open their markets to a wide range of U.S. agricultural products. These deals will reduce agricultural employment in the poor countries, as has occurred in Mexico under the North America Free Trade Agreement (NAFTA). The impact of a new deal between the United States and Central America may be even harsher on Central American economies and workers.

Any serious attempt to address the global oversupply of labor should begin by reducing agricultural subsidies to high-income farmers in the United States and the rest of the rich world. The United States should revise its own policies and should provide real leadership in the WTO talks to challenge the EU and other rich countries to do likewise.

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Partners for Trade Agreements

The United States is currently pursuing a trade strategy it terms "competitive liberalization." It seeks to pressure countries like Brazil that are reluctant to open their markets on terms sought by the United States by concluding bilateral or regional trade pacts with their smaller neighbors. U.S. negotiators hope that the reluctant countries, fearing loss of U.S. market access and investment to countries that do sign such agreements, will accede to U.S. preferences in larger pacts such as the Free Trade Area of the Americas (FTAA). This strategy also contributes to the larger problem of global labor oversupply.

The United States negotiates these mini-pacts with countries that have very little bargaining power. This includes the five Central American countries already mentioned, five Southern African countries, and Morocco. In these negotiations the United States invariably refuses to address the agricultural subsidies that deny the smaller countries' comparative advantage for their farm products, while it insists that U.S. farm products be allowed into their markets. Although the developing countries involved have tried to resist lopsided deals on agriculture, they ultimately concluded pacts with terms that are likely to lead to the displacement of many of their agricultural producers and aggravate rural unemployment in their countries. As in Mexico, job growth in other sectors is unlikely to offset the agricultural job losses; therefore the net impact in the short to medium term will be negative, with increased unemployment or poorly paid informal-sector employment in the smaller countries.

The unattractive agricultural terms in these small agreements make it less likely, not more likely, that countries like Brazil will be pressured to agree to the FTAA. Many of the U.S. farm sectors that insisted on protection in the smaller pacts produce products such as

sugar and beef that are also vital to Brazil and other large developing countries. These countries have balked at deals that exclude their most competitive products, and so the FTAA talks, as well as the WTO negotiations, are at a stalemate. From the perspective of global labor oversupply, this is not a welcome development because genuinely balanced free trade pacts across the Western Hemisphere and globally would stimulate demand and employment.

Labor Rights in Trade Agreements

Modern trade agreements address not just tariffs, but also a broad range of issues that are directly or indirectly related to trade. Among these issues are the overseas rights of investors and rights of corporations whose products embody intellectual property. Since 1993, when President Bill Clinton insisted on negotiating a labor side agreement to NAFTA, all U.S. free trade agreements have also included some protections for the rights of workers. The NAFTA side agreement was a tentative and modest step. Subsequently, U.S. negotiators developed a more robust approach to protecting labor rights in trade agreements with Jordan and Cambodia. The U.S.-Jordan Free Trade Agreement made respect for a set of basic worker rights—referred to as "core labor standards"—a mandatory obligation of the trade agreement, enforceable through the same mechanisms that would apply to a commercial dispute. The U.S.-Cambodia Textile Agreement offered that country the possibility of increased access to the U.S. market for its apparel products if it improved the treatment and working conditions of its apparel workers and began to enforce its own labor laws, which were very good by international standards but were not enforced.

These approaches marked a milestone in the effort to ensure that the benefits of trade would be distributed broadly to the citizens of U.S. trading partners and that trade pacts would reinforce the rule of law. These terms help restore a semblance of balance between the rights of workers and the rights of investors in the currently skewed context of global labor oversupply. By strengthening the right of developing countries' workers to be paid the local minimum wage, to organize unions and negotiate their terms of employment, and to claim other legal rights, such provisions also strengthen economic demand at the global level. Better paid, more secure workers buy more goods and services.

Since 2002 the United States has adopted a much less rigorous approach to labor rights in trade agreements. U.S. negotiators now require only that trading partners enforce their existing labor laws, even if those laws are so flawed that workers are denied basic rights. For example, if a country's labor law allows employers to fire workers who try to organize unions, the current U.S. trade model requires only that those laws be effectively enforced. Profound flaws can exist in laws covering discrimination in employment, restrictions on abusive child labor, and minimum safety protections at work. The current U.S. approach simply requires compliance with those faulty laws.

The new U.S. approach does not provide equivalent enforcement for violations of workers' rights compared with enforcement mechanisms for violations of investors' rights or commercial disputes under trade agreements. In the case of violation of labor rights, the maximum penalty is a fine of up to $15 million, which is then returned to the violating country to spend on improving labor rights. This provides little deterrent effect. Even in cases where neutral arbitrators determine that workers have suffered violations of fundamental rights that are severe, repeated, and systemic, the violating government will not lose trade benefits. Conversely, violations of investors' rights and intellectual property rights put trade benefits at risk, which provides a strong deterrent.

In a world where the forces of supply and demand favor investors and disfavor workers, the current approach by U.S. trade negotiators further tilts the playing field in favor of investors and against workers. U.S. policy

should be revised to use the terms of the Jordan agreement as a minimum requirement in any U.S. trade pact, and efforts should be made to fashion even more robust approaches. The positive incentives included in the textile agreement with Cambodia have proved very successful in creating jobs in that country while also improving working conditions and rights. Positive incentives should be fashioned for other trade pacts.

Coordination of International Policy to Stimulate Global Demand

The fundamental macroeconomic tools of demand management—monetary and fiscal policy—are wielded primarily at the national level, but they can be coordinated and influenced at the international level as well. Simultaneous growth of demand in many countries is the best way to cure the problems of unemployment and global labor oversupply. It is an easily demonstrated tenet of economics that coordinated macroeconomic policy can accomplish more than countries acting separately and potentially offsetting each other's efforts. Considerable room exists today to improve coordination of macroeconomic policy at the global level.

Of the major economies, the United States and Japan currently follow stimulative macroeconomic policies involving some combination of low interest rates, spending, tax breaks, and high liquidity. However, macroeconomic policy in the EU is restraining growth, particularly in its largest countries. Meanwhile, in the developing world, debt repayment has constrained demand and reduced employment. In some countries, specific conditions attached to debt repayment by the International Monetary Fund (IMF) have prevented even modestly stimulative policies in the face of rising unemployment. For example in Brazil, the IMF requires that the government maintain a budget *surplus* of 4.5 percent, despite weak growth and high unemployment. There are rationales (of varying degrees of persuasiveness) for each of these policies within the specific country, regional, or lending context. However, in the global context, they offset each other and yield an unsatisfactory overall equilibrium of depressed demand, unemployment, and downward pressure on wages that harms all countries.

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International macroeconomic policy coordination is not easy, and it is likely to be particularly difficult in the current international atmosphere where trust is under strain. Nonetheless, coordination has been accomplished in the past, notably when there was strong political will from the United States. The current global environment requires just such leadership. ■

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