

Economic and Social Policy in the Era of Globalization

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**Richard B. Freeman, Harvard University, NBER,
Centre for Economic Performance, LSE**

- **The thesis of this lecture is that globalization has made the economic world sufficiently different from the past that policies that worked or were expected to work no longer fit reality.**
- **The outmoded policies may include some of your favorites – Washington Consensus; reduced state role in income distribution; centralized/ coordinated cb**

The thesis has three parts

1. Boundary conditions-- facts

Great doubling of globalization

Increased production/spread of knowledge

Potential global-demics

Feminization of work

2. New problems

HR leapfrog

transition economics for all

Increased inequality

3. Potential Solutions

???

Fact 1:the GREAT DOUBLING

Collapse of communism, India's turn from autarky, China's shift to market capitalism → global work force of 2.93 Billion people.

Without those countries, global work force would be 1.460 Billion Persons

China added 0.76 B, India added 0.44 B, Ex-Soviet added 0.26 B → 1.46 Billion

The Result: Near Halving of Global K/L ratio

	Before	After	Ratio
1990	\$53,500	\$29,800	.56
2000	\$61,300	\$37,600	.61

Source: calculated using Penn World Tables, with perpetual inventory method based on investment (no distinction btwn buildings, equipment, housing etc). But China investment rate in current currency and ex-Soviet based on K/L ratio of 15% US.

New globalization → Increased production and diffusion of knowledge

Huge increase in educated work force.

**282% growth in college enrollments,
1970-2000**

**In 2000 ~ 112 million college enrolled
around world 38% in new globalizers;
69% in LDCs**

More Researchers than ever

Output Side

Growth of scientific papers

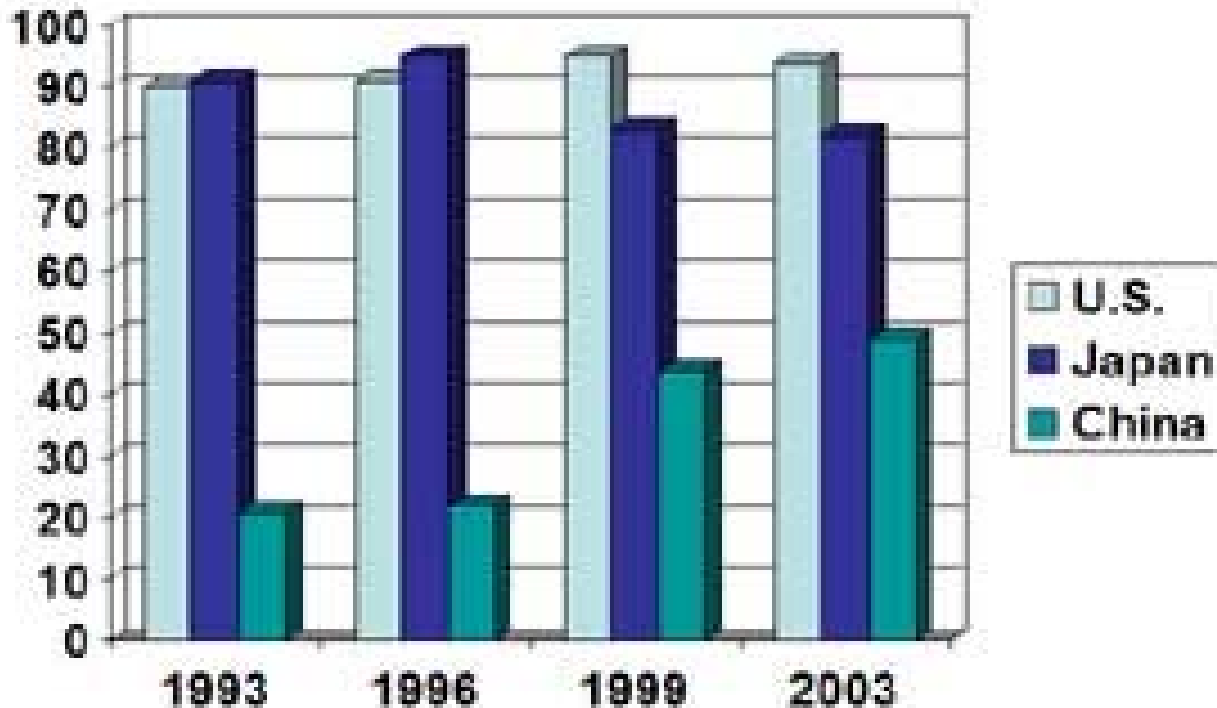
**exponential growth with fastest growth
from China, Latin America**

Speed of technological diffusion

faster diffusion than in past

→ Singularity? Nano-tech revolution?

Technology: China Moves up in Ga Tech Index



The threat of Global-demics

Health pandemics

Terrorist threats

Climate change

Nuclear proliferation

**Problems that cannot resolve
unilaterally.**

Feminization of Market Work

Females become large proportion of highly educated; professionals;

More minds for market work

Low birth rates

**New Realities → Epochal transition
to unified world society → large
transition problems**

**Tinbergen: race between demand for
educated and supply; # tools = # problems**

**Today: race between competitive pressures
from low wage and increased knowledge
and improved production and lower prices
of goods**

II. Problems from globalization: doubling → Low wage competition

**Living standards in China/India rise with growth,
downward wage pressure/job loss in old LDCs:**

**Informal sector grows almost everywhere → old
strategy of growth through low wage mfg for
global market, heart of Wash Consensus – does
not work ... Problem areas -- Latin America eg
Peru, Africa, eg South Africa, rural areas of
China, India**

**The Story for Advanced countries was
North-South model: “We get Educated Jobs
and they Get Bad jobs”**

**But LDCs can compete high tech “good jobs”
because human resource leapfrogging:
Populous low wage educate large numbers;
China SE PhDs grow massively: from 5% US in
1989 to 126% in 2010**

Numbers matter

700+ multinational RD centers set up in China

**Offshoring to India: “If it is digital, it is
contestable and will be offshored if possible**

Spread of Technology & Education Can harm Advanced country

**If lose “retainable” industries/or edge in productivity
in industries with close cost competitiveness.
(Gomory-Baumol)**

**Industries with RD/new products are natural temp
monopolies: “It’s good to be monopolist”**

**Spread of technology could be good for consumers:
LDC takeover of high-tech → low price, world
output zooms and all benefit from terms of trade
(Ruffin-Jones).**

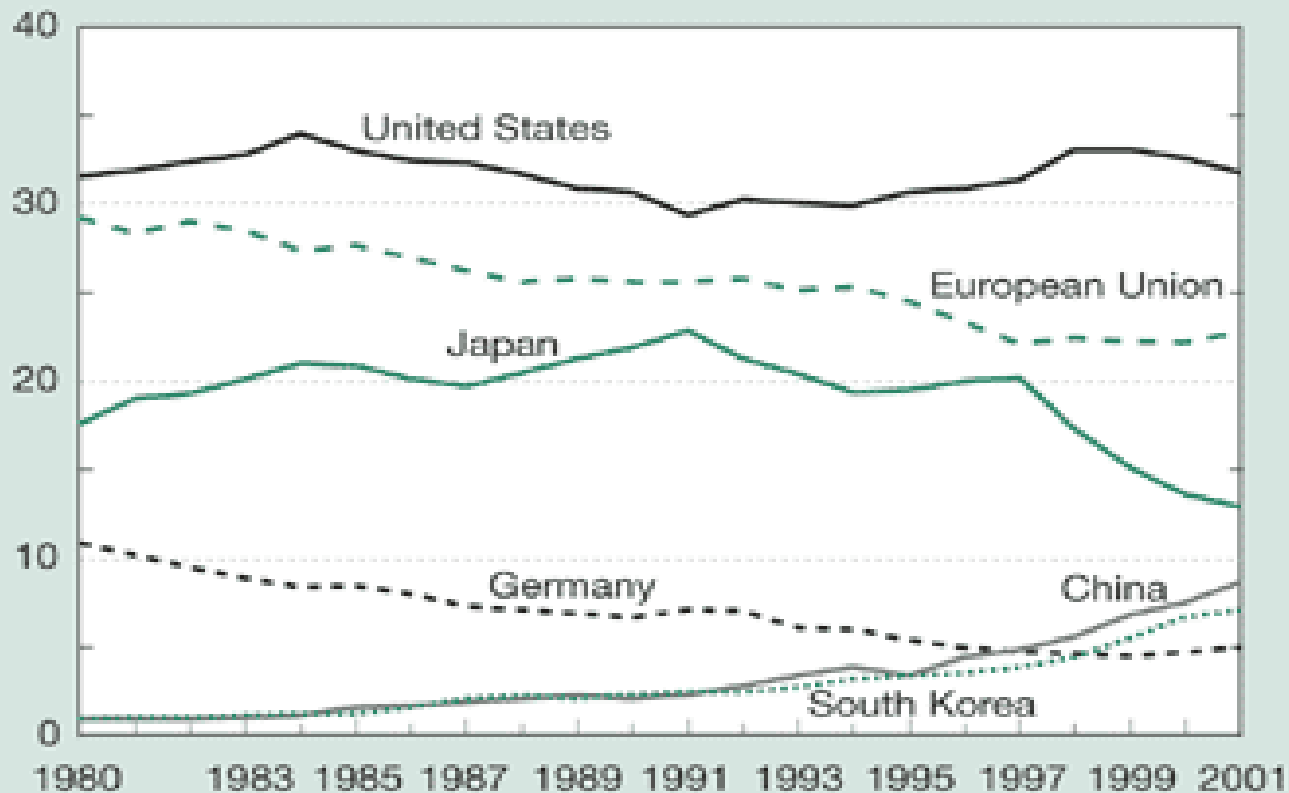
But loss of “good jobs” on production side.

Production

Figure 6-5

Country share of global high-technology market in selected countries: 1980–2001

Percent



SOURCE: Global Insight, Inc., World Industry Service database, 2003. See appendix table 6-1.

Long and difficult transition

China, India develop enclave economies that use low paid “surplus labor” from agric so wages grow slowly; jobs leave advanced countries. More advanced LDCs cannot compete

Global capital stock increases slowly → wages in advanced drop/stagnate until parity established.

Transition is long: China – 6% growth of wages → 50 yrs to reach US level; at 7% 30 years

Dangers → new protectionism, rules for global economy that benefit capital; huge within country inequality

Multinationals as Agents of Global Equalization

“Doing the Lord’s work in LDCs; Devil’s work in advanced countries”

Multinationals spread knowledge and improve jobs in LDCs but reduce worker well-being in advanced countries.

CAPITAL WINS – combine capital and knowledge with low-cost labor → big profits

GOOD TRANSITION

Technological advance accelerates bcs additional SE/R&D from LDCs; → reduced cost of goods, which dominates declining terms of trade

Advanced retain some leading sectors

Develop networks; area agglomeration effects

Social services and infrastructure substitute for stagnant slow growing wages – social wage/guarantees for citizens so reduce marginal cost of labor while preserving living standards

Large increase in K/L → higher wages in LDCs; fall in world poverty/inequality

World pressures for higher labor standards

III. Solutions

???

The myth that we can do nothing because of “social dumping”

“If we do X, we can’t compete”

But ...

exchange rate is adjustment tool

productivity of social investment

US v EU national health care

infrastructure//schooling

good society attracts immigrants

local capital for local business

accept lower return bcs local

spillovers

consumers care about standards

The “low road” leads to ...

Social unrest

From poor

From Schumpeter’s scribblers

From unions

Disease

Investment in control/policing

Guideposts to solutions

**LDCs must find “niches”; use natural resources;
DCs must find new technologies to
differentiate → important innovation RD policy**

**W/P – P will fall, so not need to keep W high →
different union bargaining strategy**

**Marginal wage down – but average living
standard up because more social benefits to
citizens → more public goods + taxes + low
wages. Earned income tax credit/family tax
credit**

And ...

Make local more important → invest in infrastructure; control of local capital. Globalization makes local space more important

**Intervene in health overseas. “Force/ induce”
LDC investments in health: eg tie access to global markets to health spending; pay for better peasant health care**

New policies on immigration of people