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## Uneven Gains and Unbalanced Burdens? Three Decades of American Globalization

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America's average gains from 30 years of deepening global integration have been surprisingly large, as documented in the previous chapter.

But their distribution among Americans has been uneven, according to recent research at the Institute for International Economics and elsewhere.<sup>1</sup> And distributional unbalance has characterized the burdens involved in realizing these gains.

American workers, firms, and communities with high skills, mobility, and global engagement have prospered handsomely. Those with average skills, low mobility, and little capability for global engagement have enjoyed disproportionately few net gains.

The same research also shows, however, that these same subpopulations of Americans face uncertain outcomes from changing technology, business ownership, "outsourcing" arrangements among suppliers and distributors, union attractiveness, and urbanization trends.

So recent global integration may have contributed, but only moderately, to their challenges, unless global integration itself has facilitated

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1. See Richardson (forthcoming) for a synthesis of the Institute research. See Fischer and Hout (2002); Hornstein, Krusell, and Violante (2003); and Krueger and Perri (2003) for other relevant contributions to the American scene, and Milanovic (2003) and Smeeding and Rainwater (2002) for growing global evidence of uneven distribution of the gains.

productive innovation in product quality, production process, and organization; undercut the effectiveness of union representation; and made it possible for cities to grow at the expense of proximate rural areas on which they used to depend.

In brief, many of the drivers of American change over the past few decades seem to be interdependent and cannot be distilled into a “pure essence of globalization,” as distinct from pure technological change, and so on.

## Uneven Gains?

Modern research using American microdata has revealed important *new* benefits from “engaging” in the global marketplace but also new concerns about their uneven distribution (see the previous chapter).

For Americans as suppliers, the metaphor that best summarizes these new benefits is fitness. Global markets serve as a kind of fitness center for all kinds of firms, in all kinds of industries, not just the large or lucky, and also for their workers and host communities. Unfortunately, however, those who try to avoid growing global competition face grave and growing health *risks*.

For Americans as demanders, the metaphors that best summarize these new benefits are precision parts and consumer sovereignty. Global markets allow firms to shop the world for the precise kind of components, equipment, and input services that maximize their own productivity and that of their workers and allow households to choose goods and services from an enormous global array of qualities and varieties at affordable prices.

**Americans as Suppliers.** The same new research shows that global “engagement” is not just export success. It is much more diverse and multi-dimensional. Global engagement includes importing and cross-border investment and technology exchange, in either direction.

Each type of global engagement is associated with fitness rewards. And when this new research is pulled together, it reveals another unappreciated pattern: Exports, imports, investment, outsourcing, and licensing of technology “hang” together. Industries and communities with lots of one also have lots of the others. The various types of global linkages are an integrated family of fitness commitments. And their distinctive benefits cumulate.

What are those distinctive benefits from global linkages?<sup>2</sup>

- American plants that export continuously grow 0.5 to 1.5 percent faster per year and enjoy 8.5 percent lower plant-closure rates than otherwise comparable locally focused plants.

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2. See Lewis and Richardson (2001) and Richardson (forthcoming).

- American plants that are equity-linked to either American or foreign multinational corporations (MNCs) have 2 to 4 percent faster overall productivity growth per year than comparable, yet insular and wholly American-owned plants.
- Such MNC-engaged plants also use 27 to 31 percent more technologies from a standard list of 17 advanced technologies than do their non-MNC twins.
- Worker wages are 10 to 11 percent higher at American plants that export, 2.5 to 7 percent higher at American plants with an equity stake from a foreign MNC, and 7 to 15 percent higher at American plants owned by an American MNC than worker wages at comparable plants that are not globally engaged.
- American workers at plants linked to either foreign or US-owned MNCs maintain these higher wages *even though* their MNC employers “offshore” 1.5 to 2 times as many intermediate input purchases as comparable non-MNC plants. More precisely, MNC plants import—outsource offshore—11 to 16 percent of their supplies and components, whereas comparable non-MNC plants import only 6 to 8 percent.
- In a typical American state, service establishments with equity stakes from foreign MNCs pay workers up to 9 percent more than comparable American-owned service establishments, in both heavily unionized and lightly unionized states and industries.<sup>3</sup>

These sizable fitness rewards for the globally engaged seem to persist in bad times as well as good. They characterize small firms as well as large. They appear in low-tech as well as high-tech activities. And they accrue to normally skilled as well as highly skilled workers, to union members, minorities, small towns, and other unlikely communities. There is little to no evidence in this research that global engagement helps capitalists more than workers, nor the strong and ambitious any more than the small and solidarity-minded. Global engagement seems to benefit all who partake. Only insularity seems to penalize.

But insularity is the source of the *unevenness* of these new fitness benefits. Americans who are unwilling or unable to seize these opportunities do *not* maintain their traditional status quo. In the globally integrated, technically dynamic, mobility-rewarding environment, insular Americans are subjected to unwelcome competitive pressures with an intensity that is far stronger than it used to be. Globalization and complementary

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3. See Lewis and Richardson (2001, 33–34). There were no discernible state-by-state premiums for manufacturing establishments owned by foreign MNCs.

change widens the dispersion of benefits as well as raises its mean.<sup>4</sup> The gains are larger than ever for the successful engagers, and large on average, but smaller for the most insular fringe. Those that “have” get more opportunity; those that “have not,” get less.

In fact, the principal source of overall fitness gains is a form of Darwinian evolutionary succession—sifting and sorting—in which the population of the “fittest” grows and prospers, but the population of those least fit, and least globally engaged, shrinks (and shrinks faster than it used to). In the United States, *that* population of insular Americans is still quite large.

At the level of firms and workers, models of this effect of global engagement<sup>5</sup> show the following:

- Increased global market opportunities—declining tariffs and trade costs, declining start-up costs of marketing abroad, opening of new, formerly closed foreign markets—can *all* cause favorable gains in worker-level, industry-level, and aggregate productivity, even though they have *no* ensuing salutary effect on any single firm’s or worker’s productivity (i.e., they merely make it possible for the already most productive to prosper).
- Such globalization-induced increases in overall productivity translate one-to-one into increased average welfare (i.e., standards of living).
- The mechanism by which these productivity and welfare effects emerge is “churning” followed by natural selection among heterogeneous firms that differ either in their inherent overall (total factor) productivity or in the access they have to worker pools of varying skill/creativity/reliability.
- Because firms and workers differ within an industry and occupation, they also differ in global and internal “competitive advantage” vis-à-vis rival firms and workers, and therefore country *comparative advantage must be redefined at the level of firms and workforces* as well as industries.
- But the same increased global market opportunity that rewards high-productivity firms and workers squeezes out low-productivity firms and workers. And this increased churning and dispersion of rewards may be seen as an increase in the endemic risk facing the entire Amer-

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4. See a number of chapters in the three-volume *Handbook of Labor Economics* for documentation of the increased dispersion of labor rewards.

5. The following summary points come from Melitz (2003); Yeaple (2003); and Bernard, Redding, and Schott (2004). The models so far developed are for export and import engagement only, not for other modes of global integration such as investment or technology transfer.

ican economy and therefore a potential deduction from the welfare losses associated with increased productivity.<sup>6</sup>

Early attempts to measure the average gains from recent American global integration show them to be quite large:

- Recent reductions in cross-border transactions barriers and costs have caused one-to-one improvements in average US manufacturing productivity (1 percent improvement for every 1 percent decline), according to one study. Greater imports cause some low-productivity US plants to close but reduce input costs for higher-productivity plants and expand export market potential for them.<sup>7</sup>
- In differentiated-product US manufacturing,<sup>8</sup> according to a second study, industry productivity growth rates are 1 to 1.6 percent higher for every 1 percent decline in the cross-border costs of trade across industries and over time. Sifting and sorting is the main mechanism.

But there are no attempts so far to measure the degree to which these gains may be diminished from the increased riskiness of being on the “wrong side” of the American distribution of productivity across firms and capability across workers.<sup>9</sup>

What *is* clear from the Darwinian models of these new gains is that they *must* be distributed *more unevenly* across Americans than the traditional gains from trade. Just how much more unevenly remains to be seen, as does the issue of American policy innovation to more widely disseminate these new gains.<sup>10</sup>

**Americans as Demanders.** There is also some evidence that the benefits to American buyers from global integration have been unevenly distributed. Roughly one-third of American imports are purchased for “final

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6. See, for example, Krueger and Perri (2003) and Heathcote, Storesletten, and Violante (2003).

7. See Bernard et al. (2003) for a microsimulation based on a model calibrated to actual US data for recent years.

8. Differentiated-product manufacturing is inferred; four-digit SIC industries with high export and import penetration with OECD countries is the inference lens used by Bernard, Jensen, and Schott (2004, 11–13). Three-quarters of the 67 industries so identified come from the usual family of high-technology manufacturing industries at the two-digit level: SIC 28 (chemicals, pharmaceuticals) and SIC 35–38 (machinery, equipment, instruments).

9. The beginnings of an approach to such measurement can be found in the new research on the welfare costs of growing US wage and income inequality. See Heathcote, Storesletten, and Violante (2003) and Krueger and Perri (2003).

10. Richardson (forthcoming, Part IV) discusses various American policy options and innovations.

use” by households. Yet the policy barriers to trade in these household goods have come down especially *slowly* in the food and clothing categories on which the spending of poor American households is concentrated. One revealing study (Gresser 2002, table 1) calculates that American tariffs fall unduly harshly on the budgets of the poor, causing the working-poor household to lose 5 days of annual purchasing power to protection-inflated prices, whereas a high-income household with \$110,000 of annual income loses only 1½ days of annual purchasing power.

## Unbalanced Burdens?

Recent microdata research has also been able to profile those Americans who bear the burdens of job dislocation and sluggish wage growth due to global integration, technological change, and other complementary pressures.

Workers in import-sensitive manufacturing industries seem recently to be bearing an increasing share of the labor-market adjustment burdens, whereas in the 1980s and 1990s they were only very slightly more pressured than manufacturing workers in general.<sup>11</sup> In 2000–01, workers from broad import-sensitive sectors (roughly 25 percent of manufacturing and 30 percent of nonmanufacturing jobs) began to experience dislocation rates that were more than double those facing other manufacturing workers (6.1 compared with 2.8 percent, relative to 2.1 percent in nonmanufacturing). Reemployment rates (over roughly three years) also began to diverge in the same way as dislocation rates—dropping to 54 percent compared with 57 percent for dislocated peers in other manufacturing jobs (and relative to 65 percent in nonmanufacturing jobs).

Furthermore in *extremely* import-sensitive sectors, accounting for 6 to 10 percent of manufacturing jobs, workers’ *personal* characteristics put them at high risk for technological and global dislocation and made it hard to recover their footing in new jobs. These workers were older, less educated, mostly female, and longer tenured (i.e., more immobile) in their current job than typical American workers.

For example, in the extremely import-sensitive textile and apparel sectors (Kletzer, Levinsohn, and Richardson, forthcoming):

- For apparel workers, the disproportional probability of losing their job has been rising steadily from 1979 through 2001. Textile worker dislocation, though historically only slightly greater than for other manu-

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11. Kletzer (2001), reconsidered and updated in Kletzer (forthcoming).

facturing, has surged relatively<sup>12</sup> in the past few years, especially for women textile workers.

- Apparel workers have had lower and slower reemployment prospects than other manufacturing workers over the whole period (textile workers again looked more typical of all manufacturing in reemployment).<sup>13</sup>
- In predicting reemployment success, personal worker characteristics mattered far more than the industry from which the worker was displaced. Dislocated workers who were more educated and more skilled (measured by occupation) were more likely to find new jobs, with men more likely than women. But these personal capability and adaptability traits were found among textile and apparel workers less frequently than among workers in other sectors.

American deunionization trends also seem to be interdependently correlated with education and trade. On the one hand, exports and imports seem to have contributed only modestly to American deunionization according to recent research (Baldwin 2003). But on the other hand, trade had larger estimated impacts on basically educated unionists than on those who are better educated. Surges in imports from 1977 to 1987 and in exports from 1987 to 1997 were each correlated with strong reductions in the employment of basically educated unionists (controlling both for shifts in product demand and for technological change). Job declines attributed to rising imports from 1977 to 1987 accounted for a disproportionate share of employment declines borne by basically educated unionists, amounting to 20 to 25 percent of the decade's total decline in basically skilled unionized jobs. The same research attributes almost one-half million fewer unionized blue-collar jobs to rising *exports* from 1987 to 1997—a disproportionate share of employment declines borne by basically educated unionists, amounting to 42 percent of the decade's total decline in basically skilled unionized jobs.

The export side of these findings is striking and seems initially counterintuitive. Yet surges in US export participation and sales shares in the late 1980s and 1990s are highly correlated in the US Census of Manufactures with strong skill-upgrading in employment and with a decline in the average size (downsizing) of both firms and plants. Export surges during this period were also often the result of global outsourcing—vertical rationalization and specialization of production stages—and

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12. All workers' dislocation probabilities turned up in the 2001–02 recession, but the upsurge was especially strong for textile workers.

13. The adverse reemployment gap narrowed somewhat for apparel workers in the recent slump.

of hard-fought corporate struggles over whether to invest in additional exports from American plants or whether to invest abroad, both of which can threaten the jobs of less-skilled and unionized workers. Stronger global export competition facing American firms squeezes their ability to earn profits and to share any such profits with their workers.<sup>14</sup>

Finally, if these results do profile the pattern of globalization's adjustment burdens, then it is no surprise that recent research on opinion surveys finds that higher import and immigration barriers are more favored by voters the less education they have and the lower paid their occupations (Scheve and Slaughter 2001). Protection from both imports and immigrants is associated with individual skills and education (industry and location hardly matter). This research also implies that every extra year's education in a cross-section of voters makes an American 5 to 6 percent less likely to support higher import barriers and 2 to 3 percent less likely to resist immigration. (Mean support for higher import barriers was around 60 percent in the surveys sampled, and toward immigration the typical voter's preference lay somewhere between "less" and "fine as is.")

## Quo Vadis American Policy?

Taken together, the various studies of American benefits and burden-bearing imply that politicians who want to appeal more successfully to real people and to the working poor need to choose between two important policy directions. They can slow down global integration and/or protect more aggressively at the American border. Or they can help such Americans directly by domestic policy innovation.

Since the research summarized here (and in the previous chapter) also shows that Americans *on average* gain enormously by keeping borders open, our strong preference is for new American policies whose benefits are strongly concentrated on diffusing the gains and easing the burdens on middle America and the American working poor.

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14. Slaughter (2001) and Khripounova and Richardson (1998), for example, show how increased global competitive pressures that "flatten" a firm's product demand curves also flatten the demand curves for workers, making them more elastic. Union wage premiums fall toward zero as worker demand curves become more elastic, according to most models of workplace bargaining.

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