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OECD: Impact of globalisation makes workers increasingly vulnerable

More open markets, global trade and investment don't inevitably lead to greater prosperity and more jobs. Thus, workers and trade unions pointing to adverse effects of globalisation, in particular the loss of jobs, stagnating wages and increasing inequality, have good reasons to do so. New empirical evidence, assembled and analysed by the *OECD Employment Outlook 2007* has revealed that fears about how globalisation is affecting OECD labour markets are not exaggerated. It was found that globalisation, in particular the rapid increase of imports from non-OECD countries and the expansion of international production networks, has become a "*potentially important source of vulnerability for workers*". The data analysed suggest that the intensification of foreign competition has made jobs less stable by increasing the probability of job separations.

Although the research has been conducted with a great deal of caution, it confirms that the critique of globalisation as expressed by trade unions is substantiated. However, a closer inspection of the data used as well as the period analysed reveals that globalisation presumably has inflicted worse damage on social and economic well-being of workers than the findings suggest. Most of the data and studies referred to, in particular the ones on offshoring, are primarily related to the decade from 1990 to 2000. Thus, not capturing the increased dynamics of offshoring appropriately, the estimated effects on employment may be too low. Nevertheless, even the tentative results presented provide a serious challenge to the positive judgment of economists regarding the cost and benefits of globalisation.

The research findings presented by the *Employment Outlook* also reveal that most workers across the OECD are not sharing the alleged gains from globalisation. In this respect the report notes "that the wage share of national income has declined quite sharply since 1980 in the EU15 and Japan, and more gently in the United States, implying that average wages have failed to keep pace with labour productivity". (See chart below) At the same time the wage distribution has become more unequal. As the report notes, in 17 of the 20 countries for which data are available, the earnings of workers at the top of the wage distribution have risen relative to those of workers at the bottom since the early 1990s. Moreover, the intensification of foreign competition has contributed to increased wage instability, in particular for low-tenure and low-skill workers.

Up to date, a great part of economic research has dubbed concerns of workers regarding globalisation as founded on prejudice and error whilst arguing for continued market opening. The findings often asserted that more open markets, global trade and investment would inevitably lead to greater prosperity and more jobs. Thus, research has failed to realize that many of the troubles related to globalisation are rooted in the policies advocated by the heralds of globalisation. Policymakers, focusing on freeing markets and cutting welfare spending have failed to realize that growth prospects aren't any longer constrained by a lack of openness and welfare state commitments. It's just the other way round.

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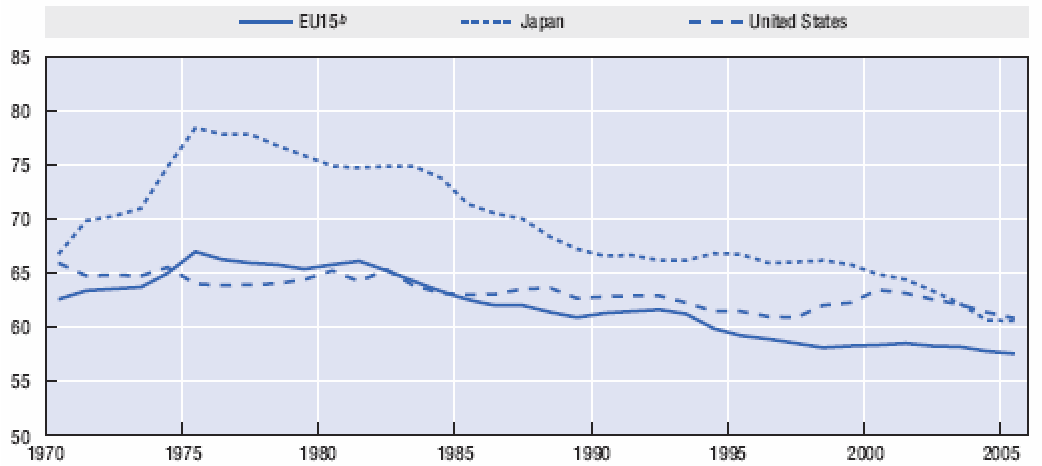
In order to pass the reality check against global competition, prominently characterized by the rapid increase in Chinese exports and by "offshoring," governments must do more than merely facilitating adjustment and compensating job losers. Instead of lowering social protection and cutting down public expenditure on labour market, education and social policy, governments must renew the compact underlying social cohesion, maintain and extend the policy space required to cope with the challenges of globalisation. They must protect social norms and values, in particular the concept of decent work, from being subordinated to economic goals or being instrumentalised for their attainment.

Figure **Wage share of national income in EU15, Japan and the United States, 1970-2005**

Share of total wages and salaries in total value added, [a)] percentage



a) Total labour compensation, including employers' social security and pension contributions and imputed labour income for self-employed persons.
b) GDP-weighted average of the following countries: Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, the Netherlands, Spain, Sweden and the United Kingdom.
Source: OECD estimates using the OECD Economic Outlook database.