Does trade with low-wage countries hurt american workers? essay

Finance

Does Trade with Low-Wage CountriesHurt American Workers? Abstract: This brief paper compares the views of writers on both sides of the Free trade divide, between those who hold that globalization helps both American and third world workers, and those who hold that such trade policies exist for any by elites.

This brief paper will look at some of the more important works on the question of American wages and global trade. As a matter of course, it seems that the support for global free trade is a consensus shared by elites: the major banks and economists, while the rejection of such policies comes from others not so gifted. The literature on this subject is vast, but this paper generally holds that global free trade is harmful to American workers, but with several important caveats. Stephen Golub in his 1998 work on globalization holds that the movement to low wage states b American capital has nothing to do with wages.

He does not say what it has to do with. Golub’s thesis is based on the concept that low wages are normally correlated with low productivity. This means that the global labor force is generally equal in terms of unit cost, since the low wages are more than made up for in terms of a lack of productivity. Again, the question presents itself: what is the draw in terms of third world investment if not wages? Golub holds that if wages were the prime consideration of American capital in determining targets for investment, than the world’s poorest states such as Bangladesh would be major importers. But this is clearly not the case, and hence, there must be other factors driving external investment. The fact is, according to Golub, that as the US has become more and more open to the outside world in terms of investment and consumption, the US standard of living has risen, and consumers have more choices than ever before.

For the American investor, the third world is a target because their populations do well in terms of unsophisticated labor, while Americans want more rewarding and sophisticated jobs (Golub, 1998, 5-6). In this vein, the Federal Reserve Bank of Dallas, in two Annual Reports (2002 and 2005) have laid out their opinion in terms of free trade, globalization and its benefits to the American worker. In general, they mirror the views of Golub: Free trade promotes specialization, and specialization means more efficiency and hence, lower prices (Dallas Fed, 2002, 7).

What these arguments all center around is that since the 1970s, the American standard of living has grown, and hence, free trade and globalization are good things, since they are responsible for this explosion on consumer choice and technological innovation. But more interesting is the 2005 Annual Report, where the basic thesis is that free trade is essential to good government (both corporate and state), in that the discipline of the global market forces states to adopt more efficient trading and investment policies. Trade barriers give states and special interests great power over the economy. The global trading environment breaks that power, leaving economic actors to freely compete and hence, forcing them to adopt policies that promote efficient production, which means low prices and more variety and innovation.

Macro-economic issues become important in globalization in terms of things like investment policy and monetary discipline. In other words, to be a part of the global economy and succeed forces states to adopt policies that free investment and discipline the printing of cash. Success is to be gained in the marketplace, not the nepotism and corruption of insider politics (Dallas Fed, 2005, 7-11). The above arguments, speaking simply, reflect elite opinion in terms of free trade and globalization.

Writers such as Daniel Altman, however, hold that, far from going beyond state policies, free trade and globalization are highly state centered. Free trade deals are precisely the kind of insider politics that the Fed allegedly rejects. American wages have been stagnant for years, and the only real winners of globalization have been shareholders, who now have an excuse to squeeze more and more out of labor in the name of global competition (Altman, 2007). Free trade is a highly political movement, as the Fed well knows. John Nichols, writing in the Madison Capital Times, holds that the free trade movement has imposed these trade deals upon the public. Globalization, in other words, comes from elites and serves their interests. Globalization and free trade are the result of the choices and profits of the major capitalists and their financiers, and hence, have imposed themselves upon a society whether it wanted it or not (Nichols, 2001). Lael Brainard, a major researcher in foreign trade for the Brookings institution, in his testimony to the Senate Finance Committee, holds that workers in the US are being hurt by free trade.

Inequality both within states and among states has increased, not decreased. The only people, on the whole, who have benefitted from free trade are those who have access to the levers of power. Free trade, in other words, is for the elites, and depends on being a member of the “ club” in order to take advantage of the new opportunities free trade creates. Brainard holds that the real fruits of free trade are the disappearance of the middle class lifestyle of Americans, the empowerment of the state over the economy (contra the Fed’s position), and, worst of all, a constant sense of insecurity for the American worker.

Brainard holds that his own research shows that the average American worker will be in a constant state of transition as the global economy takes over more and more, and that his choice of occupation will be dictated by the “ global market” and as soon as that changes, he will need to be “ retrained.” This will happen over and over in the life of the average worker. Brainard does not advocate protectionism, but he does hold that the domestic policies of the US must change radically to maintain some level of security for this average worker, constantly transitioning and never able to specialize. However, a compromise position seems to be put out by Pranab Bardhan, who holds that the increase in well being among certain third world countries, is only partially based on globalization. A common argument for those who support free trade is that openness leads to prosperity and a lowering of poverty in the third world. Many of these writers have proven that the more open the economy, the less poor it is, though this may be a spurious relationship. The fact is, according to Bardhan, is that free trade only works if the target state has already a solid, productive macro-economic policy in place.

This is his central thesis (Bardhan, 2006). Bardhan and the Dallas Fed seem to be on the same page, with the exception that the former does hold that many have been hurt by free trade. The basic point of agreement is that the macro-economics of the target country is central to whether or not free trade will affect them positively. Those states in the third world that have seen their poverty decrease such as China, India or Indonesia, have also been able to overhaul their domestic macro-economic policies to gain the most out of foreign investment.

Without this overhaul, free trade will not help them. Hence, to some extent, Bardhan agrees with the Dallas Fed that the discipline of the global market should force states to adopt policies that can attract trade and investment including legal transparency, tight monetary policy and strong economic institutions that are separate from political interests. In conclusion, the work reviewed here disagrees on the question of standard of living. The Fed holds that the standard of living has increased, leaving that concept vague, in that they seem to hold that this “ standard” is dictated by choices and technological innovation.

The opposition view holds that the benefits of globalization are really only available to the well connected, since it is these same people who have created the global economy over the last few generations in the first place. Globalization, in other words, has been imposed from above. Unlike the Fed’s position, the opposition holds that globalization is highly state centered and exists as a form of collusion between major capitalists and the state. Golub fails to make his case since he does not explain why it has been so important for western capital to invest in the third world if low wages are not the primary motive.

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