

Effects of globalization on the labor market



Nowadays, the unemployment rates in the United States are significantly increasing. Many people are losing their jobs. Therefore, many people are trying to find out the reason that causes this high unemployment rates. In spite of the government and individual decision is one of the factors that affect the employment rates; however certainty globalization is also the main factor of this issue. One the connection between globalization and unemployment is the number of competitors rising, which make some local firm has no matches with their competitors. The other connection between globalization and unemployment which consumers have more choice of good and services which may cause local firms lose their monopoly of the market within the country. However, globalization might increase employment in some countries where labor costs are less, for example in China where labor cost is cheaper, therefore global firms will have their industries in China.

Globalization of market is a mega trend which is inevitable that had altered the international business backdrop by allowing both obtaining and marketing activities on a global level. Nonetheless, peoples are having mix feelings toward globalization which people may agree that trades will benefit consumers but at the same time it also impact on labor market on global level. Employees who lose their jobs due to globalization have to go through some time before discovery a new employment opportunity. During the transition, job reallocations will significantly increase the rate of unemployment (Felbermayr, Prat & Schmerer, 2011).

Nevertheless, market globalization is not a recent phenomenon since it has taking place when humans started to interact with other peoples over long distance in different regions. Although globalization is not new, however “ at

the start of the nineteenth century, globalization was distant from the minds of politicians, businessmen, and voters in the world” (O’Rourke & Williamson, 2001, p. 1). According to Cavusgil (1993), in modern era, one of the greatest interesting developments would be the globalization of markets. Reich (1998) stated that “ the meaning of ‘ globalization’ remains as elusive as to defy definition. Indeed, to suggest the concept is contested would indicate that there are at least some general schools of thought on the issue” (p. 3). Hence, “ the globalization of markets is best reflected in the “ internalization” of business transaction” (Cavusgil, 1993, p. 84). For instance, the transaction might involve a foreign parties or currencies. Besides that, the term globalization is not a simple substance because this term applied to many different developments; still globalization has rooted with the concept that included a description and a prescription. The description could be the world were more bound to the flows or finance and trade; the prescription is the development of world that was in everyone’s attention (Stalker, 2000). In this paper, I will try to discuss the issues of globalization impact on global level, and its consequences.

II. GLOBALIZATION

a) What is Globalization?

Globalization is being recognized as something as surprising and innovative which is out of human control (Stalker, 2000). Guillén (2001) mentioned the term ‘ Globalization’ “ is used to encompass increases in trade and liberalization policies as well as reductions in transportation costs and technology transfer” (p. 5). Globalization has been applied many different processes, therefore the meaning itself became indefinable. In simplest way

to describe globalization may refer to a growing number of multiple events happening simultaneously in more than single country (Stalker, 2000).

b) Five dimensions of Globalization

There are at least five dimensions of globalization, first of all is the integration and interdependence of domestic economies. Reinicke (2000) explained that “ the concepts of interdependence and globalization often are used interchangeably, many studies characterize globalization as the “ the intensification of economic, political, social, and cultural relations across borders” (p. 5). Another dimension of globalization is the rise of regional economic integration blocs, for example, two or more countries formed a free trade area in order to defend against globalization (Stubbs, 2000). Firm and governments also start international currency trading in trade and investment although the scales for trade and investment are very diverse (Garrett, 2000). Fourth dimension is the globalization of production; Ernst (1999) stated that “ by concentrating production within one region, a firm can generate closer, faster, and more cost-effective interaction between different stages of the value chain than it can ever hope to achieve once it starts moving production abroad” (p. 24). Lastly, many services firms are undergoing globalization of services that expanding their business cross border and seek for low cost due to the reduction of transport costs since the “ dramatic strides in telecommunications technology have slashed the distance barriers between countries” (Hufbauer & Warren, 1999, p. 7).

III. EMPLOYMENT RATES

Rama (2003) stated that one of the matter that globalization can affect the developing country is the labor market. “ Increased import penetration,

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export sales, competition in services, foreign direct investment and exchange rate fluctuations prompted by international capital movements could all, in principle, have an impact on employment and labor earnings” (Rama, 2003, p. 5). Besides that, there are many issues caused by globalization, one of it was the globalization affects the flexibility of workers through national borderlines and domestic labor organizations might not be sufficient to safeguard their fundamental rights of their workers (Stalker, 2000). Besides that, globalization has been connected with variations in labor market, for instance, the variations in the structure and level of labor demand, in skill scarcities and relative salaries (Orbeta, 2002). In order to become more competitive, many countries reduce their trade and investment barriers, eliminate their legal monopolies, transfer their public-sector enterprises and reduce over-staffing in their swollen organizations. Hence, these modifications could lead to the huge loss of job and significantly increase unemployment rates (Rama, 2003).

IV. LABOR MARKET

The increases in globalization have been escorted in the United State by drops in industrial and manufacturing employment rate and the demand for less skilled labor and the increases in earnings inequality. The swift rising of earnings inequality and low wage growth are fundamentally a US Phenomenon. Though there are many countries that did not involve the growth in earnings inequality, and unemployment. However, there are still a number of countries that did not experience those issues (Blanchflower, 2000).

a) Income Inequality

“ The ideal measure of inequality would be based on comparisons of individuals’ well-being over their entire lifetime” (Goldberg & Pavcnik, 2007, p. 45). According to Sachs (1998), he believes that globalization would lead to greater overall growth rates for nearly all economies. Moreover, there would not be a trade-off among faster growth and slower growth. Besides that, Sachs (1998) also mentioned the separation of salary between labor and capital; hence “ the post-tax income of capital is restricted relative to the post tax income of labor as a result of globalization and especially globalization that leads to openness of financial markets and not just of trade” (p. 8). Moreover, globalization will lower the income of unskilled worker in the developed countries and increase the income of unskilled worker in the developing countries (Sachs, 1998). It is because the rise in inequality recognized in many developing countries had been connected with the rise of skill premium, for example the salary gap between unskilled worker and the skilled worker (Goldberg & Pavcnik, 2007, p. 45). Goldberg and Pavcnik (2007) also stated that “ the definition of skill varies depending on the kind of data employed” (p. 46). This case occurs between developed country and developing country when they start to trading with each other (Sachs, 1998). Nonetheless, international trade could affect the employment rate; hence this could explain the inequality in U. S. increased and the increase in Europe unemployment. Thus, the increased trade with countries high in unskilled labor could lead to the increase in quality of skill (Krugman, 1994). However, this case will raise the demand for skilled workers, while reduced the demand for unskilled workers. Therefore, “ the skill- abundant country will export skill-intensive goods and import labor- intensive products,

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and as a result will shift its production toward skill-intensive sectors and away from labor-intensive sectors” (Krugman, 1994, p. 67). For instance, the rise of China as a foremost manufacturing exporter, and rapidly improve in the skill level of the work; when a country with plentiful unskilled workers reduce their barrier of trade, this have a tendency to lower the price of labor-intensive goods, hence initiating other country to move out of these sectors (Krugman, 1994). Hence, those unskilled workers in a country might lose their jobs.

b) Skill premium

“ The increase in the skill premium in the developed country is mainly the result of skill-biased technological change” (Krugman, 1994, p. 70). Although the wages of skilled workers had increased, most areas had increased the ratio of skilled to unskilled workers in their labor force. Hence, this shows a change in the production purpose that increases the marginal product of the skilled workers to the unskilled workers. Nevertheless, the technology surely had played a main role in the increased premium on skill, in the increased rate of European unemployment (Krugman, 1994).

V. IMMIGRATION

International migration became a key issue in globalization since the migration in recently was the key factors in industrialization, colonialism, and nation building (Castles, 2006). Freeman (2006) stated that the United Nations has projected that in year 2000 nearby 175 million people not lived inside their birth place. Moreover, the United Nations has estimated about 190 million immigrants by 2005, more than 82. 5 million immigrants in 1970. It is because” many people migrate to other countries to advance their

careers, or just out of a sense of adventure, for most people the main reason is the prospect of earning more money” (Stalker, 2000, p. 21). For instance, the Mexicans can earn 278 dollar per week in the United State compared to 31 dollar per week in Mexico. However, from the year1950s onward, there is much migration into Europe because of labor shortages. For example, West Indians flow into United Kingdom to fill up those unfilled vacancies. On the other hand, in the recent years there is argument for the impact of immigration in Western Europe. It is because the immigration now interprets for the loose of population growth in the European Union. Many spectators have also noted that enlarged immigration is more likely to be part of strategy to keep European social security systems flush. Furthermore, the increase in immigration is related with high levels of anti-foreigner sentiment, since immigrants take jobs from local is common in Europe (Bauer, Lofstrom, and Zimmermann, 2000 as cited in Angrist & Kugler, 2003). Therefore, Altonji & Card (1991) found that for every 1 percent increase of the immigrants, the wages of the local worker will decrease by approximately 1. 2 percent. In the model of immigration, immigrants tend to decrease earnings of substitute aspects and increase the earnings of complementary aspects (Freeman, 2006). Therefore, some hotel industries or manufacturers will tend to hire low wages immigrant instead of local worker, in the result, the local workers will lose their job, hence the employment rate among the local will decrease.

VI. DISCUSSION

Globalization has been applied in many different processes, this trend is mostly inevitable. The increase in globalization causes inequality in most

countries. However establishing a causal connection between the trends is very challenging. Furthermore, the labor market is one of the main networks through which globalization can affect many countries. For example the increased export sales, import penetration, , foreign direct investment, competition in services and exchange rate variations stimulated by international capital movements, hence it have an impact on labor and employment. Besides that, job destruction proceeds faster than job creation, hence many countries may escort high unemployment rates by many years. However, only a part of the unemployed in developing countries are out of job due to globalization. The lineup for government job is common among the educated youth. It is because those unemployed used to work in the private sector, which is not directly affected by exposure to world markets. Moreover, unemployment rates did not seem to be higher in the more open economy. Labor migration is mainly a global phenomenon and other areas are also sighted shifting pattern of migration, besides that international labor flow always mixed with refugees. It's not only the political issue create refugee, but also refugee status is a way of avoiding immigration controls.

VII. CONCLUSION

In my opinion, there is something we can do against the increasingly inequality and unemployment rates. In order to deal with the inequality and unemployment in United State, human capital investment can provide two solutions for the problem. First, training and education can help those workers who do not go to college. Educated workers tend to be more productive. It also applied to the training on worker. Therefore the increase in the level of skill in the labor force would make the premium on skill

smaller, and result in flatten the wage distribution. Besides that, government can also come out some regulation and policies for the immigrants or global investor in order to protect the local workers and industries.

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