Even though competition from low-wage countries has some negative effects on employment in OECD countries, the link between globalisation and job losses is less obvious than it first appears. In times of economic shock such as the recent recession, globalisation seems to create more jobs overall than it destroys. Likewise, the total increase in wage inequality of the past two decades seems more linked to technology and legislation than globalisation – which does nevertheless undeniably contribute to increased job insecurity in some cases. The challenge is to help the “losers” of globalisation stay in the race and seize the new opportunities offered by openness to international trade.
Does globalisation promote employment?
By way of introduction......

In January 2008, mobile phone manufacturer Nokia announces it’s closing its factory in Bochum (Germany), moving production to Cluj-Napoca (Romania) and axing 2 300 jobs. One year earlier, Ben-Q/Siemens and Motorola also closed their German production sites. And yet the mobile telephone market, born only 15 years earlier, is still young. Faced with the emotion triggered by this announcement, the German government demands that Nokia reimburse the EUR 17 million it received in subsidies.

International competition has grown in most sectors. Companies want to reduce costs. For many years, offshoring has been a means to this end. The gradual diversification and internationalisation of shareholders has reduced many companies’ local foothold, creating uncertainty and worrying workers in developed countries, whose jobs constantly risk being transferred to the other side of the globe.

This uncertainty has been prevalent for decades, and the 2008 crisis, with its devastating effects on jobs, has increased it. In many countries, the employment situation has got considerably worse. Economies previously characterised by relatively low unemployment rates have seen them soar. Between December 2007 and March 2010, jobless rates rose from about 4.5% to slightly over 8% in the United Kingdom. The rise in unemployment has been even more acute in the United States, with rates climbing from 4.5% to close to 10% of the workforce.

This chapter looks at the impact of globalisation on employment in the past 20 years. This is no easy feat. As we’ve seen, globalisation involves different phenomena, from international trade through migration to FDI. Some clues can help us evaluate the impact of globalisation on employment, but they can also mask the less visible underlying trends, both in terms of employment volume and job quality.

Globalisation destroys some jobs,
but creates many more

Offshoring, while certainly painful, is only one aspect of globalisation. An analysis of the global effects of the increased economic
integration of different world regions reveals a complex reality. Here, we mostly concentrate on employment tendencies in OECD countries because unemployment has been widespread since the late post-war period and here more than elsewhere, globalisation has been blamed for robbing workers of their jobs. Some employment trends in developing and emerging countries appear in parallel as jobs lost in some sectors in OECD countries often appear as jobs gained in other regions.

**Job losses due to competing goods from emerging countries**

Imported products competing against domestic products have spawned job losses in OECD countries. The new configuration of international trade discussed in Chapter 4 is characterised by the decreased competitiveness of some goods manufactured in developed countries compared with those from emerging countries.

It is difficult to establish the total volume of job losses due to international competition, because the link between the two is often indirect and not clear-cut. Even so, the evolution of employment data in some industries is telling. Since the 1990s, industrial employment has backtracked in most OECD countries – a symptom of the de-industrialisation of developed countries. In the 1990s, a flood of clothing made in China that was sold at unbeatable prices proved fatal to a vast swathe of the textile industry in several OECD countries. Many companies were forced to downsize or close down. From 1970-2003, the textile workforce dropped 60% in G7 countries. This carnage caused OECD companies to refocus on branches with higher value added, such as textile technology, design, haute couture, etc. Similar trends affected mass electronics, toys, household objects and other sectors whose products did not require specialised skills and technology.

But some industrial activities – such as agribusiness, chemicals (including pharmaceutical products) and cars – remain a source of employment in OECD countries. These sectors maintained a more or less stable workforce over the past 25 years, at least up until the recent economic crisis. In the case of agribusiness, industrial processing must often be located close to the distribution market. This means that international competition has less of an impact on the activity and the way it’s organised, so the industry is relatively safe from the strong winds of international competition.
But competition can also be beneficial to workers in developed countries. The automotive, pharmaceutical and chemical sectors are largely dependent on international competition, which has not affected their employment levels. This is because, unlike the textile or mass electronics sectors, they essentially export and import among OECD countries which, as it turns out, manufacture more or less the same type of products. For example, German automobile imports to France don’t threaten French automobile production, because France also exports its cars to Germany and other OECD counties. In other words, it’s mostly competition among some imported goods – lower-value-added goods produced in developing and emerging countries – that causes some job losses in OECD countries.

Not all the OECD countries have evolved in the same way. In Korea, Mexico or Ireland, the number of industrial jobs has risen. Since the industrial fabric developed late, these countries are catching up in effect, thanks in part to foreign investment. In the 1990s, US personal computer manufacturer Dell established a base and created over 4 500 jobs in Ireland. In recent years, most Dell PCs sold in Europe were assembled at Limerick. Thanks to the huge number of computers exported from its Irish base, Dell contributed nearly 5% of the Irish GDP. Yet in 2009, caught up in the global crisis, the company closed its Limerick unit and transferred production to Poland.

The North’s de-industrialisation and its negative effects on employment are also due to another form of competition – wage competition, which prompts many OECD companies to outsource production.

**Loss of jobs due to offshoring**

The impact of offshoring in OECD countries can’t be overstated. Some of the research is quite worrisome. In 2005, one study showed that 40% of major corporate chief executives outsourced or intended to outsource one or several units to a foreign country. While many jobs first migrated to Asia, they now also move to North Africa, central Europe or even the Caucasus. In 2005, Internet provider Lycos France, a subsidiary of Spanish group Telefonica, transferred a portion of its operations to Erevan, in Armenia.

This trend isn’t limited to industry. In 2004, one in two firms was considering relocating a service activity. Today, one wage earner out of five in OECD countries works in an activity that could be outsourced.

Offshoring is a direct consequence of stepped-up globalisation from the 1990s onward. From the moment most obstacles to
international trade were lifted, communications became instantaneous, companies were able to establish themselves abroad easily and production chains were globalised, companies couldn’t wait to seek out labour in least-cost countries.

The impact of offshoring on employment isn’t straightforward. Many companies only outsource part of their production to emerging countries. The jobs lost in this way are in labour-intensive, low-skill areas such as assembly lines. The savings the company makes in productivity, competitiveness, etc., allow it to make new investments. Its overall sales and turnover grow, allowing it to hire new workers.

**Job losses are not only due to globalisation**

While offshoring is a highly visible symptom of the impact of globalisation on some job types, it is far from the only cause of job losses in developed countries. In Europe, fewer than 5% of job losses in industry and services can be explained by the decision to outsource an activity to a lower-wage country. In France, offshoring caused 13 500 industrial job losses from 1995-2001 – a relatively low number compared with total job losses. A study over the period 2002-04 showed that 75% of European job losses were caused by internal restructuring following technological or process improvements or corporate strategic re-orientation, and 15% by bankruptcies.

In the United States, the share of job losses due to delocalisation is also low – even if it has risen in recent years. In 2003, 13 000 job losses – or less than 1% of total job losses – were due to offshoring. During the first quarter of 2004 alone, the number of jobs eliminated due to offshoring had reached 2% of total job losses. As in Europe, most US job losses resulted from productivity gains stemming from new technologies and from companies’ strategic re-orientation.

Indeed, globalisation does have an impact on these factors. As we’ve seen, the increased economic integration of countries promoted growth through productivity gains and the spread of new technologies, allowing companies to realise considerable productivity gains. Job losses due to increased efficiencies, restructuring and corporate bankruptcies can be viewed as *indirect* consequences of globalisation. But these gains in efficacy and productivity also create new jobs. In any event, the opening of borders to trade and investment isn’t the sole culprit.
Creation of new jobs in high-tech industries and services

The recent economic crisis caused a significant spike in unemployment in most OECD countries. While countries’ growing interdependence made it easier for the shock to spread, the shock itself was caused by the malfunctioning financial sector and some macroeconomic imbalances (see Chapter 8). In the decade preceding the crisis, the total number of jobs in the OECD did not fall, quite the contrary – job losses in some sectors were compensated by millions of job creations.

New professions appeared, particularly in the services industry, which in Germany created 3 million jobs from 1995-2003. Business-to-business activities alone (accounting, human resources, call centres, web design, logistics, etc.), hotels and restaurants, health care and services to individuals created over 2.5 million positions. These new service professions often generate greater value-added than labour-intensive activities. The wealth thus created could be re-invested in new activities, which in turn create new jobs.

On average, the number of service-related jobs created in this way was greater than the number of lost industrial jobs in developed countries during the last decade. Between 1995 and 2005, the employment rate in OECD countries rose 1.1% annually. This progression is higher than the 1% annual population increase. This means that globalisation and competition from low-cost countries did not stop developed countries from creating more jobs. Better still, the resulting productivity gains led to new job creations in higher-value-added sectors. In 2007, just before the global economic crisis, the average unemployment rate of 5% in OECD countries was at its lowest since 1990.

In developing countries – and particularly emerging countries – globalisation led to job creation, either through new businesses being created or companies offshoring from developed countries. While it may be difficult to put a precise figure on this, it can be said that globalisation created more jobs overall than it destroyed.

But jobs are just one adjustment variable among others. Countries can’t ignore globalisation’s “losers”. They must implement adjustment and training measures to meet the challenges of globalisation (see the conversation with Paul Swaim at the end of this chapter). And, what’s more, the positive balance we refer to here only concerns employment volume. What about employment quality? This is where, more often than not, globalisation gets the blame.
6. Does globalisation promote employment?

**OECD Insights: Economic Globalisation**


In real life

**Albert Lebleu, 62 years old, former engineer at Metaleurop, Courcelles-lès-Lens, France**

“The worst, for us, was that decisions were no longer made locally.”

The road that leads to Courcelles-lès-Lens, in France’s Nord-Pas-de-Calais, bears constant reminders of the region’s historical milestones: its glory days, with its textile factories, its wealth, its coal mines. The volcano-like silhouette of the highest slag-heap in Europe (186 metres) brings to life the flat and monotonous terrain of this little corner of the northwest. In 1914, at the beginning of the First World War, the front line was 15 kilometres away. The area was hit by cannonades. Men from over twelve countries and three continents killed each other in the environs during this time of globalised conflict. A military cemetery at the entrance to the town keeps alive the memory of the events.

Today, low houses emphasise the peaceful nature of this village of a few thousand souls. In a room on the first floor of the small city hall, Albert Lebleu busies himself in the middle of a bric-à-brac of cases, stacked chairs and ageless computers.

At 62 years old, this trained chemical engineer with greying hair is still full of energy. The various associations he heads, including that for former Metaleurop workers,
6. Does globalisation promote employment?

In real life (cont.)

keep him almost as busy as ever, but this time on a volunteer basis. His plant closed suddenly in 2003. After 33 years of loyal service to the Metaleurop Nord foundry, Albert Lebleu agreed to take early retirement. During those years, he witnessed the impact of globalisation on his company. Since joining in 1970, he held various posts. In 1975, his contribution to an internal research programme resulted in the company adopting a then-unique process in the field of germanium production. The patent still bears his name, along with the names of two colleagues who fine-tuned the process with him.

Today, there is pride in his eyes as he recounts his factory's past. In the 1960s, the Metaleurop foundry was the first to adopt the pyrolysis process for treating metals such as lead and zinc. This process was later implemented elsewhere, in Australia, North America... The booming company then changed its positioning to produce rarer metals. Metaleurop Nord was the largest global exporter of germanium, a metal used to make night-vision goggles. The factory produced a component used in liquid crystal monitors. "As a production unit, we were very technology-oriented", remembers Lebleu.

But 35 years ago, other countries started occupying the same niche, sometimes with more recent installations and technologies – the first signs of globalisation. "Our competitiveness started to erode", he relates. "First, Japan entered the competition in the 1970s. Then, China arrived on our market. In the meantime, the rising number of cheaper foundries in emerging countries meant that Metaleurop could no longer break even, and accounts plunged into the red. The company built up losses. "Early in 2003, the parent company turned off the tap", recounts Lebleu, as Metaleurop's majority shareholder dropped its subsidiary with no resources and without giving the workers any notice. At the time, there was no transnational legislation to force the parent company to honour the commitments of a subsidiary if it was not a majority shareholder. "From one day to the next, we found ourselves without jobs and without unemployment benefits. Management simply decided to abandon the production unit, hiding behind the fact that the coffers were empty at the branch level."

Metaleurop Nord was then known as one of Europe's most polluted sites. Hazardous chemicals were stored in the open and not one euro was spent on cleaning up. "We lived through savage capitalism in all its horror", judges Lebleu today. "With globalisation, capital came and went across borders. They could run a factory into the ground and leave behind an ecological and social disaster." Finally, the French authorities financed a portion of the decontamination process. Five years later, new activities have sprung up. Of the 830 employees of Metaleurop Nord, only 60 or so are still employed. "The social damages have been mitigated", concedes Lebleu.

Four years later, the retired engineer has found new occupations, but he now wonders about the future of his 35-year-old daughter; also an engineer. "In the early 1970s, fewer than 10% of people in my age range had earned the baccalaureate (the secondary education diploma). Today, nearly everyone has one. Becoming an engineer in no way guarantees you a good career – you have to prove yourself constantly. On top of that, our purchasing power is not keeping pace. More and more people work for the minimum wage. And globalisation doesn't help this at all", he concludes.
Globalisation seems to increase disparities in job quality

“In OECD countries, globalisation is found to have disproportionate impacts on certain types of workers, particularly low-skilled workers who may also be concentrated in certain regions.”

OECD, Staying Competitive in the Global Economy – Compendium of Studies on Global Value Chains, 2008

Some fear that globalisation will lower employment standards – the “race to the bottom” – as workers in industrialised countries see their wages and work conditions align with those in low-wage countries. Is this fear founded?

Lower salaries in low value-added sectors

Wage levels in OECD countries present a mixed picture. Faced with international competition, some real wage concessions are taking place. Here again, offshoring has painful consequences. In 2008, the United Auto Workers (UAW) union of US automotive workers agreed to halve the wages of young workers to preserve employment at a Ford plant threatened with a transfer to Mexico. On the other side of the Rio Grande, Mexican workers’ representatives made even greater concessions, with newly hired workers sometimes agreeing to start at USD 1.50 per hour. At that rate, a Mexican worker is competitive, even compared with a Chinese worker.

“One of the arguments for adopting the North America Free Trade Agreement (NAFTA) was that Mexican wages would climb gradually until they were the same as in the United States. Instead of there being upward pressure on Mexican wages, US wages were subjected to downward pressure.”

Ben Davis, director of the Mexico City solidarity bureau of US union AFL-CI

The simple threat of offshoring is sometimes enough to lower employment quality in developed countries, because it reduces corporate union activism. As companies internationalised and outsourced a number of functions, the links between the top and the bottom of the pyramid grew looser – which caused wages to rise more
6. Does globalisation promote employment?

slowly (see Albert Leleu’s account above). Between 2001 and 2006, the real weekly wages of average US workers – those in the middle of the wage distribution range – decreased by 4%, despite a 15% productivity gain. In Germany and Japan, real wages stagnated. The overall result is that since the 1980s, the share of income from labour in OECD countries has declined. In contrast, in 2006 the share of company profits exceeded 15% of the GDP of the seven most industrialised countries, compared with 13% in the early 1980s.

Here too, of course, situations differ from one industry to another. The workers whose wages and working conditions are under pressure toil in industries competing with low-cost countries. Standardised and repetitive industrial and service jobs are under constant threat of relocation. Computing, chemicals or finance are not subjected to the same international pressure as more traditional sectors such as textiles, cars or electronics. On the contrary, wages in these sectors grew at the same time as globalisation intensified.

The impact of globalisation on wages in OECD countries is therefore mixed: while job quality has worsened in the now less-competitive sectors, many high-quality jobs have been created in sectors where these countries have a major comparative advantage in international markets. On the demand side, the development of emerging countries has offered new outlets for OECD area companies. With regard to the offer, international competition has made products and services more competitive and has resulted in the hiring of a better-trained and more productive workforce. Today, companies need an ever widening range of specialised skills. In 2006, jobs that demanded a high capacity for judgment represented over 40% of open corporate jobs in the United States and nearly 70% of overall jobs created since 1998. These kinds of job are more valued and generally better paid.

The result is the appearance of a two-speed labour market in OECD countries. On the one hand, the wages of unskilled workers have shrunk. On the other, the wages of educated and experienced workers in prime niches have soared. Wage inequalities have increased over the past decades. In 2006, the richest Americans earned the equivalent of 16% of all the income generated in the United States in a year, compared with only 8% in 1980. The income gap between the richest 10% of citizens and the poorest 10% has widened in developed countries, with some rare exceptions: in Ireland and Spain, that gap actually shrank between 1994 and 2005, their economic catching-up period.
But is this growing inequality only due to globalisation? According to the in-depth OECD study *Divided We Stand: Why Inequality Keeps Rising*, the relationship between inequality and globalisation and their effect on overall employment isn’t that obvious. The study shows that the main factors behind wage disparities over the past
decades at the global level have been institutional and political changes (especially labour market rules) and technological advances.

**Some job insecurity**

Wages aside, many workers and union representatives point to the increasing lack of job security. Here too, OECD firms’ ability to offshore to low-wage countries with less rigid social legislation weakens unions’ bargaining power and exerts downward pressure on employment quality.

OECD area companies increasingly resort to part-time work and fixed-term contracts. According to the European Trade Union Confederation (ETUC), of the 4 million jobs created in the European Union in 2006, the share of part-time jobs has grown. In 2008, 40 million EU workers held a part-time position, compared with 32 million ten years ago. Some 14.5% of European workers have a fixed-term contract, compared with 11.5% in 1997. According to ETUC, young people all over Europe – and up to 50% of 16-25 year olds – are subjected to this type of contract. In Sweden, 68% of young people work under a fixed-term contract.

The overall picture therefore reveals a degree of insecurity in unskilled jobs in OECD countries, partly linked to increased competition from low-wage countries – where laws and practices often give less protection to employees.

**Improvement in job quality in emerging countries**

One of the dark sides of globalisation is sweatshops – workshops run by the sub-contractors of major brands in which employees wear themselves down working long hours for subsistence wages. Likewise, child labour and modern slavery are realities in many countries. Some unscrupulous entrepreneurs settle in countries with such dire poverty that workers are willing to make considerable sacrifices. Sometimes, the global race for the lowest wages and least restrictive social legislation leads to situations where worker relations resemble the law of the jungle. Countries do not always have the administrative and legal infrastructure necessary to enforce the most basic employment laws.

Yet globalisation can also lead to improved employment conditions in developing and particularly emerging countries. Many MNEs that have settled there to manufacture and sell products and services have imported their original quality standards and good
practices. Local companies that have entered into partnerships with MNEs have noticed higher levels of productivity than competitors who do not have this experience. Overall, MNEs pay their employees higher wages than local companies. Likewise, their unionisation rate is slightly higher, except in the Middle East.

That said, these positive repercussions may mostly benefit skilled workers, as opposed to manual workers performing minor or routine tasks. Recent studies in Brazil and Indonesia show that when a foreign company purchased a local business, wages quickly rose 10% to 20% on average. But we do not have accurate enough data to find out how these gains are distributed.

The improvements brought about by MNEs are not always automatic or spontaneous. The moral pressure exerted by NGOs, unions and civil society can produce higher wages and improved working conditions in MNE subsidiaries or local sub-contractors. In recent years, major international groups have established in-house corporate social responsibility programmes (CSR) which, while it may be good that they exist, are not always optimally effective on the ground – as witness the example of Nike (see the box).

---

**Corporate social responsibility (CSR):**

A mixed review for Nike, Inc.

Nowadays, the impact of CSR programmes on working conditions seems limited. The main difficulty lies in elevating employment standards in a very tense competitive environment. Nike, the US manufacturer of sports equipment, is a case in point. The brand only has 24,000 direct employees. Almost all of its production is subcontracted to some 800 manufacturers in 51 countries. In the early 1990s, Nike was the target of a very negative media campaign because it was discovered that its subcontractors used underage workers. In reaction, Nike established a very strict supplier control system. In 2004, the firm employed 80 CSR supervisors and inspectors responsible for ensuring that subcontractors were respecting Nike’s code of conduct on the ground. Despite this army of controllers, 80% of Nike’s external suppliers failed to implement and follow the code prescribed by the US management. Controllers’ visits have until now had a very limited effect.
By way of conclusion...

In order to make an objective assessment of the impact of globalisation on employment, we have to look at the bigger picture. This suggests that, overall, globalisation creates more jobs than it destroys. But this should not be cause for celebration. For the thousands of workers who lose their job or purchasing power due to company offshoring or loss of competitiveness, it is of no consolation whatsoever to know that there are plenty of vacancies and that wages are rising in other sectors or countries.

Governments cannot ignore globalisation’s “losers” – those who work in sectors weakened by international competition. The 2008 economic crisis caused unemployment rates in the OECD area to soar. By the first quarter of 2010, employment had receded 2.1% over a period of two years and the unemployment rate had risen by slightly over 50% to 8.7% – or 17 million additional jobless.

The crisis led governments to take unprecedented steps to tackle unemployment and help workers weather the storm, compared to recent recessions. Three major types of measure were implemented which, while not specifically aimed at job losses linked to decreased international trade, did cover them.

First, governments (including Germany and several central European countries such as Hungary) sought to prevent job losses through part-time work programmes. These aimed to reduce working hours for the entire workforce, so long as economic difficulties lasted, in order to maintain jobs at the company. Since this meant lower wages, governments committed to make up some of the shortfall. As the goal of these public financing mechanisms is to preserve jobs that are viable over the long term, they must be time-limited (say, to one year), otherwise governments risk permanently financing jobs that are no longer competitive. The Netherlands went one step further: companies that laid off workers within six months of receiving the last subsidies had to refund the authorities half of the monies received.

Secondly, governments (including in Japan) aimed to support the unemployed proactively, by extending the available subsidies to include temporary workers who had lost their jobs. While often done on an ad hoc basis, this measure was still very useful to the most economically fragile jobless persons.
Finally, governments proactively increased their support for programmes to help people return to work. Public budgets were considerably expanded, for example to hire more staff in public employment services. During periods of economic growth, governments should preferably focus on people’s adaptability in terms of employment. In times of crisis, though, this isn’t enough. They need to increase the number of training programmes and funding for work experience, etc.

Most of these measures have been temporary, because they were designed to respond to an exceptional situation. A number of governments progressively adjusted or terminated them in order to maintain flexibility in the employment market and guarantee competitiveness.

Long-term measures capable of maintaining employment levels and reducing inequalities while preserving competitiveness are those included in redistributive social and fiscal policies, as well as – crucially – in dialogue among social partners (see the conversation below with Paul Swaim). More importantly, governments must insist on life-long educational and training policies if they are to offer a better response to the negative effects of globalisation. This must be a priority, so that globalisation can promote employment – for both companies and workers.

A conversation

Paul Swaim, OECD Directorate for Employment, Labour and Social Affairs

“...To remedy the negative effects of globalisation on employment in some sectors, we must help workers adapt their qualifications or expectations to the most promising employment sectors.”

The financial then economic crisis, which originated in the United States, had a severe and unprecedented impact on most developed economies, which suffered record unemployment. Doesn’t the crisis prove that globalisation destroys jobs?

The link between job losses and globalisation isn’t as obvious as it seems. Of course, the crisis caused heavy job losses in most economies, particularly in some sectors like construction and industry. But job losses in construction were less linked to international trade, while industry was more affected than expected. This is probably due to the drop in international trade, which was also steeper than expected.

That said, while international trade fell off dramatically in Germany, for example, unemployment rose relatively moderately. This was partly because employers adopted a long-term view and preferred to keep their workforce in order to be more competitive when recovery came.

Globalisation undeniably accelerated the spread of the crisis, first to the financial sector, then to companies, then to employment – with unexpected speed and gravity due to highly integrated production and trade networks in different countries.
6. Does globalisation promote employment?

**A conversation (cont.)**

We’ve seen recently that recovery in China and other emerging countries has played a major role in the strong recovery of Australia, Germany and Korea, thanks to their dynamic exports. But while globalisation can help spread the mishaps, it also spreads the benefits of periods of economic prosperity. In terms of the volume of employment, it seems to me that globalisation is more of a catalyst than an underlying cause.

*But doesn’t globalisation itself impact on the employment rate in certain sectors?*

Globalisation goes hand in hand with decreased competitiveness of some industrial sectors like textiles or mass electronics in developed countries and hence, with job losses in these sectors. But it’s hard to evaluate the impact of globalisation on job volume worldwide. Openness to the global market doesn’t automatically lead to job losses. In the years that preceded the crisis, the more open countries – like Scandinavia or Switzerland, where wages are very high – did not experience a weaker employment market.

If we look at OECD countries since the early 1990s, employment levels rose before the crisis even as their economies were becoming increasingly integrated. After a peak in the early 2000s, the unemployment rate dropped. By 2007, at the height of the last economic cycle, the average unemployment rate in OECD countries had dropped to its lowest level since 1980. Trade liberalisation was also a means for a certain number of developing and emerging countries to create pressure to improve the jobs market and increase employment. But here again, this wasn’t automatic. Many developing countries didn’t benefit from globalisation because they didn’t have the necessary preconditions, like an effective and impartial legal system.

Even if the relationship isn’t automatic, it does seem that, overall, trade promotes employment gains and better living standards. It allows countries to develop specialties – hence, jobs – where they are the most competitive. In OECD countries, the term “creative destruction” is quite appropriate. Certainly, if governments establish adequate national policies to support growth and employment, globalisation should not deter from a consistently high employment level.

*What about employment quality? Doesn’t globalisation foster a race to the bottom?*

Some pre-crisis concerns seem justified. Two wage indicators are quite worrying. First, the global share of wages and workers’ compensation has been dropping in relation to GDP since the late 1980s. Globalisation is no stranger to this. Experts agree that increased trade with low-wage countries such as China or Central European nations, leads to a compression of wages in industrialised countries. As workers in low-wage countries today have the same competencies as unskilled workers in OECD countries, the unskilled workers’ wages tend to drop.

Likewise, globalisation lowers the wage bargaining power of unions – in case of disagreement, employers can always threaten offshoring. But globalisation also increases many workers’ purchasing power by lowering the prices of a range of consumer goods used in everyday life. Also, not all workers in developed countries lose out in terms of wages. Highly skilled workers in the high-tech sectors have had wage increases.

*So employment quality evolves differently depending on the skill level?*

This brings us to our second concern: the gap is widening between the top and the bottom of the wage pyramid. This phenomenon can be observed in two-thirds of OECD countries. The gap has been widening for quite a while already in the United States and United Kingdom. In Continental Europe, inequalities were less pronounced – but the wage gap has deepened in the past 20 years or so. Several studies show that the fragmentation of union power plays a major role in this respect.
### A conversation (cont.)

The fact that the wage inequalities were less pronounced in Europe than in the United States was due mainly to unions having more centralised influence on wage determination. Scandinavian countries used to have a particularly advanced social consultation system. Now they are moving away from this model, decentralising further and giving more margin to sector discussions at lower levels. It’s hard to predict for now how far this process will take them. But with rising international competition, solidarity among different social segments will probably not be as much a given as it was in the 1960s.

Of course, we can’t align all wages, as it would have a negative impact on productivity and competitiveness. But to maintain an acceptable level of inequality, some mechanisms are less harmful to competitiveness – for example income transfers by public authorities, redistributive tax systems, support for education and training...

**So it’s been proven that globalisation increases wage inequalities?**

Rising inequalities do not stem just from globalisation. In the United States, the consensus 10 years ago was that rising inequality was caused by the reduced power of unions and by globalisation (two related factors), as well as by technological evolution. It’s quite clear that the changing nature of technology has become a major differentiating factor. Twenty years ago, knowing how to use a computer efficiently was not a decisive asset, whereas it most definitely is today. It’s hard to determine which – globalisation or technology – has had more impact on employment. Nevertheless, we believe that technological development still has more influence on rising inequality than global economic integration.

**Why is employment flexibility so vital?**

With globalisation, some employment flexibility is vital to corporate competitiveness, hence growth, which in turn promotes employment. In countries such as France where layoffs are a complicated matter and existing jobs are highly protected, it’s a lot harder to make a place for oneself on the job market. Which is why young people are increasingly turning to interim or temp work and internships until interesting jobs become available.

The recent economic crisis showed that this situation forces young workers to bear the lion’s share of the flexibility burden. For example, during the last year of the crisis (from Q4 2008 to Q4 2009), the employment rate dropped 8.4% for workers aged under 25, compared with a 2.2% drop for workers aged 25 to 54 and a 1.7% hike for workers aged 55 and over. The result is very high unemployment among youth in some countries such as Spain, where one working-age youth out of two is unemployed. There is, however, an encouraging sign: some countries where this duality is pronounced are trying to introduce reforms to even out the employment protection offered to some categories of worker.

**Is globalisation incompatible with job security?**

That seems to be going too far. Some degree of flexibility is vital, but this doesn’t mean that there should be no supportive measures in place – quite the contrary. Some countries have placed textile workers in training programmes. Others have set up training systems for older workers. Their success isn’t always a given, as it’s not easy to undergo training and master computer tools when school is a distant – and often not very positive – memory. It’s all the more difficult as there is no guarantee that an employer will not choose to hire a 23-year-old with equal qualifications. Our research shows that the most effective solution is often to help unemployed workers find a position close to the one they held in their original sector. Of course, from a macroeconomic viewpoint it is better to help people move from declining sectors to developing sectors. But this doesn’t necessary hold true at the microeconomic level.
Effective support measures can also include wage levels. Some countries test wage insurance systems, knowing that the job a person will find after a restructuring will often earn less than the previous one. The United States, France, Germany are testing such systems. In the United States, the company must prove that the restructuring was due to international competition. But here again, we don’t have enough hindsight yet to evaluate the impact of these measures.

The measures that seemed most essential to countering the negative effects of globalisation on employment involve helping workers adapt their qualifications or expectations to the most promising employment sectors. Whatever the case may be, the best solution isn’t to close oneself to international trade, but rather to offer the best possible educational level to young generations and life-long training to workers — in short, to allow people to climb the social ladder rather than tumble down to the lower wages.

Is a good education sufficient to find a job today?

University graduates do not feel as privileged as they used to. They are feeling more insecure. Previously, 10% of the population went to university. Now, it’s 50% — even 80% in some countries. Yet senior management and executive positions are not more plentiful, and a huge gap has arisen in some countries between supply and demand for them. Over-qualification — where people are considered too skilled to fit a position — is also a cause of unemployment.

International competition is increasing even in sectors that require a high level of qualifications. An Indian physician can now analyse scans taken in Austria. This was unimaginable only 10 years ago, when Western specialists could not even imagine having to compete one day with radiologists in Mumbai! More and more, people want life-long training so that they can adapt to major technological, economic and social evolutions. Clearly, governments must play a role in this respect.

That said, even though the race for university degrees and international competition has risen in the OECD area, there is still a higher likelihood of finding employment if people have a higher-education degree than if they are low-skilled. Moreover, university graduates’ difficulties in finding work quickly are more often related to inadequate employment policies than to globalisation.
### Find out more

**FROM OECD...**

**On the Internet**
The OECD website's "Trade and Jobs" page summarises the organisation's analyses on globalisation's impact on employment and provides varied, clear and useful sources: [www.oecd.org/trade/tradeandjobs.htm](http://www.oecd.org/trade/tradeandjobs.htm).

OECD work on employment is available at: [www.oecd.org/employment](http://www.oecd.org/employment).

**International Collaborative Initiative on Trade and Employment (ICITE):** A joint initiative of 10 international organisations including the OECD, the World Bank and the World Trade Organization (WTO), the ICITE aims to provide a better understanding of how trade interacts with employment; promote dialogue on these issues; and to develop policy-relevant conclusions: [www.oecd.org/trade/ICITE](http://www.oecd.org/trade/ICITE) (in English only).

**Publications**

**OECD Employment Outlook 2011:** An annual report of the OECD on employment in OECD countries and beyond. The 2011 edition focuses on the impact of the global economic crisis. While most economies are experiencing a surge in production, employment will take longer to recover. Chapter 1 evaluates how the safety net functioned in OECD countries in the throes of the “Great Recession”. Chapter 2 analyses the effect of social protection systems on the employment market in emerging economies.

**Divided We Stand: Why Inequality Keeps Rising** (2011): This OECD book examines to what extent economic globalisation, technological advances based on competencies and institutional and regulatory reforms have had an impact on wage distribution.

**Globalisation, Employment and Wages** (2007): This OECD Policy Brief reviews among others the consequences of increased international competition on employment levels and studies the evolution of real wages in OECD countries in recent years.

... **AND OTHER SOURCES**

**Prospects for Foreign Direct Investment and the Strategies of Transnational Corporations** (2005-08): This report of the United Nations Conference on Trade and Development provides insight to understand the strategies of companies undergoing offshoring and their obvious effects on employment in the country they are leaving.