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Abstract

Globalization is clearly contributing to increased integration of labor markets and closing the wage gap between workers in advanced and developing economies, especially through the spread of technology. It also plays a part in increasing domestic income inequality. But erecting protectionist policies to stanch the forces of globalization is not the best response. Policymakers must instead focus on what can be done to help workers adjust to a changing world. We are very far from a global labor market, as evidenced by a wide disparity in wages. One study finds that the median wage for jobs in advanced countries is two and a half times the wage level for jobs with similar skill levels in the most advanced developing countries, and five times the level in low-income countries. In 2008, a Chinese manufacturing worker earned about one-twentieth the wage level of a U.S. manufacturing worker; a Mexican, one-sixth. Globalization is far from being the whole story behind the narrowing gaps; if wage convergence were principally the result of an integrating global labor market, one would see wages in the poorest regions of the world, rise much faster than the others. Labor markets around the world have become increasingly integrated over the last two decades, with the entry of China, India and the former Eastern bloc into the world trading system, the removal of restrictions on trade and capital flows, and rapid technological progress. Most economists believe that immigration has an overall salutary effect on the U.S. economy. An influx of labor from abroad increases the domestic workforce, allowing the economy to expand. Low-cost labor benefits consumers by keeping prices of many goods and services low. And gifted immigrants invent new products and found new businesses think Sergey Brin of Google and Elon Musk of Tesla Motors. The economic upsides of immigration are apparent in an analysis of the Senate immigration reform bill by the Congressional Budget Office.

Keywords: *Cheap, Foreign, Labour, Cost, Globalization, USA*

Introduction

The blame for three decades of stagnant wages in most advanced countries is often laid at the doorstep of globalization, particularly competition from low-wage developing exporters (Moghadam, 2021). Globalization is clearly contributing to increased integration of labor markets and closing the wage gap between workers in advanced and developing economies, especially through the spread of technology (Mali, 2020). It also plays a part in increasing domestic income inequality. But erecting protectionist policies to stanch the forces of globalization is not the best response. Policymakers must instead focus on what can be done to help workers adjust to a changing world. According to Arnold (2020), we are very far from a global labor market, as evidenced by a wide disparity in wages. One study finds that the median wage for jobs in advanced countries is two and a half times the wage level for jobs with similar skill levels in the most advanced developing countries, and five times the level in low-income countries (Mali, 2020). In 2008, a Chinese manufacturing worker earned about one-twentieth the wage level of a U.S. manufacturing worker; a Mexican, one-sixth.

Businesses that contend in the global marketplace will naturally face competition from companies all over the world and consumers demand ever-higher quality and cheaper products, and when they have a global array of companies to choose from, only those that evolve to supply what consumers want and need will prosper (Roy-Mukherjee & Udeogu, 2021). This increased competition means companies must keep up with cutting-edge developments and stay assertive in the global marketplace to survive. Companies that open themselves up to the global marketplace will naturally find a much larger market in which to sell their services. Has a Western electric bike manufacturer found limited success in a country where cars are still king? It can turn to Asian markets, where population density has led to crushing vehicle traffic and a huge market for lighter electric transportation (Ceniga & Sukalova, 2021). The ability to discover and cater to niche markets around the world is one of globalization's appeals. Businesses operating globally attract employees from all over the world. They are likely to draw management staff from the countries where they maintain a presence and employ laborers in a country where labor is relatively affordable. Learning to manage a culturally diverse staff can be both a benefit and a challenge to a multinational business (Parveen, 2019).

Globalization is far from being the whole story behind the narrowing gaps; if wage convergence were principally the result of an integrating global labor market, one would see wages in the poorest regions of the world, rise much faster than the others (Ye, 2020). But differences in domestic factors, such as the business climate, governance, and education, also play a vital role in determining wage growth. Increased migration probably plays only a small role in wage convergence (Tsunekawa, 2019). The stock of emigrants from developing countries is just 2 percent of their population, so emigration has little role in raising wages by limiting the growth in labor supply in developing countries. Most studies have found that immigration also has had only modest long-term effects on wages in advanced countries. There are many potential reasons for this: Immigrants typically only account for 10–15 percent of the labor force. Migrants and native workers are imperfect substitutes and may even complement each other, as migrants increase aggregate demand for the services of native workers. And migrants reduce the price of services consumed by native workers. Trade can promote wage convergence even when workers do not move. Developing countries with abundant labor export goods intensive in labor, so trade induces their wages to rise relative to rich countries, which have less labor and plenty of capital. The more-

than-quadrupling of developing countries' manufactures exports relative to their GDP from 1985 to 2008 almost certainly contributed to wage convergence, especially in middle-income countries that have typically been the most successful exporters (Hobson, 2020). Numerous studies of the direct impact of trade on wages in advanced countries conclude that the depressing effect is small.

Foreign direct investment (FDI) in capital-scarce developing countries can raise the productivity of workers, and thus their wages, by transferring management skills, capital, and technology, and in the process sometimes outsourcing jobs from advanced countries (Kumar & Bhatia, 2018). FDI inflows to developing countries rose from 0.6 percent of their GDP in 1980 to 3.5 percent in 2008. However, over the past decade, total net capital flows (including official and private portfolio flows) equal to 2.6 percent of developing countries' GDP actually have gone from developing to advanced countries, largely in the form of Treasury bill purchases (Sahu, 2020). This type of investment did not generate jobs directly in advanced countries, but may have reduced the need for domestic borrowing that would have crowded out domestic investors. On balance, it is therefore not clear whether capital flows to and from developing countries have played a large role in promoting wage convergence, though capital flows taking the form of FDI almost certainly have (Quazi, Ballentine, Bindu & Blyden, 2019).

Various studies have shown that skill-biased technological change is a major driver in reducing the demand for unskilled workers (Wang, Hu & Zhang, 2021). At the same time, the transfer of all types of technology through FDI, international trade (imports of machines and learning from competitors and sophisticated customers), and migration (via contacts with diasporas and returning migrants) from advanced to developing countries provides an enormously important opportunity for raising productivity and thus wages in the latter. Moreover, increased competition from low-wage countries tends to spur labor-saving technology in advanced countries (Lee, 2019). However, despite the deepening of these channels, remaining barriers to trade and investment, inefficiencies in transport and communications, and structural limitations to the absorption of technology in developing countries, such as insufficient levels of education and business climates that discourage ventures that could adopt technologies, continue to impede the spread of technology. Moreover, in many poor countries, even relatively old technologies are only available in selected locales and to elites, or used only by a few firms (Laitila, 2020). Thus much of the technology adoption that contributes to wage convergence is actually about bringing backward regions, inefficient firms, and disadvantaged groups up to the level of the more advanced in the same country (Hutter & Weber, 2021).

Globalizations in the Context of the United States of America

Globalization has been a boon to businesses, consumers and the Western economy as a whole (Wang & Sun, 2021). Now, however, we are at risk of having a backlash against globalization and all the opportunities that increasing economic freedom has provided us with over the past decades. There is a new anxiety running through Western societies that challenges previous perceptions about freer trade as a win-win for every country (Crothers, 2021). There is rather a proliferating suspicion that globalization may have been great for some countries, but not for others, and that it is affluent countries in the West that have drawn the shortest straw. In the worldview of U.S. President Donald J. Trump, "other countries have taken advantage of America" and these types of opinions feed on growing doubts about globalization delivering better living standards for people in Western economies. Such arguments often start in China's remarkably fast trade growth since

the late 1990s, and it concludes that, while the period from then to now obviously has raised living standards in China and other emerging economies, it has happened at the expense of blue-collar workers in developed economies (Jurabaevich & Bulturbayevich, 2021). China, in other words, hollowed out the manufacturing sector in Europe and North America. For some, that is also the main source of political anger in the West: recent revolts in European and American elections have been the way for "the losers of free trade" to avenge the faults of the "pro-globalization establishment" (Wang & Sun, 2021).

There are deep flaws in this view of globalization. The chief one is that established fact and known economic patterns don't support skepticism about the benefits of trade and cross-border investment (Hoberman, 2020). While open economies always are subject to new competition and structural changes that affects firms and jobs, the flip side of the coin is that the same economic processes create a lot of new jobs and business opportunities, and ultimately improve the living standards (Aydin, Ozfidan & Carothers, 2017). Moreover, the new jobs that are created tend to be better rewarded and come with better working conditions. New output is often greener and thrive on new technology, leading to positive change also outside the economy. This study will take a thorough view on how Western economies have fared in the age of globalization. It will marshal a great amount of economic evidence, and combine economic research with examples from the real world that supports the age-old consensus about free trade. Its main conclusion is that the fast increase in global trade in the three decades before the financial crisis substantially improved Western economies and the living standards of their citizens. Globalization was a great force of spreading new technologies and providing new economic opportunity to labour in both developed and developing economies (Dunne & Reus-Smit, 2017). Contrary to much commentary, it helped to put a higher premium on human capital and giving firms new chances to employ the staff they need to compete successfully. Since the crisis, however, globalization has stalled and global trade has become a casualty of increasing protectionism around the world and the weak macro-economic performance of the West. Trade is not growing much anymore and, for the West as well as the Rest, that should be a great cause of concern, not for jubilation (Crothers, 2021).

Labor markets around the world have become increasingly integrated over the last two decades, with the entry of China, India and the former Eastern bloc into the world trading system, the removal of restrictions on trade and capital flows, and rapid technological progress (Brell, Dustmann & Preston, 2020). At the same time, the share of labor in national income decreased in most advanced countries. This paper uses a labor share equation derived from a translog revenue function to estimate the contributions of globalization, technological progress, and labor market policies to the decline in the labor share. The results, obtained for 18 advanced countries over 1982– 2002, suggest that globalization was only one of several factors that have affected the labor share. Technological progress, especially in the information and communications sectors, has had a bigger impact, particularly on the labor share in unskilled sectors (Häusermann, Kemmerling & Rueda, 2020).

Advanced economies can access this increased pool of global labor both through imports of goods and services and through immigration (Çakmaklı, Demiralp, Kalemli-Özcan, Yeşiltaş & Yıldırım, 2021). Trade has been the more important channel and has grown more rapidly, not least because immigration remains highly restricted in most countries. A similar picture emerges for developing and emerging market countries, where the export-to-GDP ratio is in general much higher than the ratio of emigrants to the domestic labor force. Nevertheless, immigration has expanded

significantly over the last two decades in some large European economies (Germany, Italy, and the United Kingdom) and in the United States (Çakmaklı, et al., 2021). The share of immigrants in the U.S. labor force is now close to 15 percent and hence comparable to the share of imports in GDP. Elsewhere the share of immigrants is still substantially less than the share of imports in GDP, but it is not negligible (Çakmaklı, et al., 2021). Interestingly, the increase in the share of immigrants over the last ten years was driven mostly by foreigners with tertiary education or at least secondary education. Interestingly, the rise in offshoring in advanced economies has been driven mostly by imports of skilled rather than unskilled inputs.

With advanced economies 'comparative advantage in skill-intensive production, goods traditionally produced in unskilled sectors (e.g., textiles) are more likely to be imported as final goods rather than intermediates (Flaherty & Rogowski, 2021). Sectors involved in the rise of imports of intermediaries are electronic equipment; other machinery and equipment; and chemical, rubber, and plastic products. It should be noted, however, that offshoring is likely to involve the least skill intensive stages of production in these skilled sectors, although the available data do not allow confirmation of this. Second, the bulk of advanced economies' imports (of both final and intermediate products) still come from other advanced economies and likely include more skilled rather than unskilled products. Third, as mentioned earlier, the global supply of labor with higher education has increased relative to labor with lower education (Jung, 2020).

The Concept of Cheap Foreign Labor Costs in USA

Most economists believe that immigration has an overall salutary effect on the U.S. economy. An influx of labor from abroad increases the domestic workforce, allowing the economy to expand (Goldstein & Gulotty, 2021). Low-cost labor benefits consumers by keeping prices of many goods and services low. And gifted immigrants invent new products and found new businesses think Sergey Brin of Google and Elon Musk of Tesla Motors. The economic upsides of immigration are apparent in an analysis of the Senate immigration reform bill by the Congressional Budget Office. The July report found that enacting the bill would boost gross domestic product 3 percent and cut the federal budget deficit by $1 trillion over the next 20 years. Increased government revenues would come from a bigger labor force and additional tax receipts from current illegal immigrants. But politicians and some economists also worry about potential downsides of immigration, including its impact on U.S.-born workers (Navaretti & Venables, 2020). One reason that Congress hasn't increased the number of visas and permanent resident "green cards" issued to foreign workers is the perception that immigration reduces the employment and wages of native workers.

Some labor market research has found that, indeed, immigration hurts U.S. workers. In a 2003 study, Harvard University economist George Borjas reported that increased immigration over the past two decades had "substantially worsened the labor market opportunities faced by many native workers," reducing the wage of the average U.S.-born worker by 3 percent and the pay of high school dropouts by 9 percent. A 2010 paper by Borjas and other economists found that a 10 percent rise in workers due to immigration reduced the employment of black men by 6 percent and resulted in higher rates of imprisonment. Such outcomes make economic sense; given a certain level of demand for labor, increased supply intensifies competition for jobs and exerts downward pressure on earnings (Weersink, von Massow, Bannon, Ifft, Maples, McEwan & Wood, 2021). "By keeping labor supply down, immigration policy tends to keep wages high," writes economist Paul Samuelson in his classic textbook Economics, commenting on restrictions on immigration in place

until the mid-1960s. But the case for immigrants taking jobs and earnings away from native workers isn't as clear cut as basic economic theory makes it seem (Weersink, et al., 2021). Other studies using different data and methods have found that U.S.-born workers suffer minimal fallout from immigration. All in all, when you look all at the evidence pointing to a negative effect, it is not very substantial, said Magnus Lofstrom, an economist with the Public Policy Institute of California who has studied the labor market effects of immigration.

Many researchers have found that low-skilled workers stand to lose the most from increased immigration, although even for this group the impact is quite small. A 2011 study of U.S. states with different levels of immigration by Giovanni Peri of the University of California, Davis found that foreign-born labor had a negligible effect on the employment and wages of unskilled native workers (Fernández-Reino, Sumption, & Vargas-Silva, 2020). Highly educated workers saw their wages increase. Earlier studies by David Card of UC, Berkeley, Pia Orrenius of the Federal Reserve Bank of Dallas and other economists have shown that immigration reduces the wages of U.S.-born low-skilled workers by no more than 3 percent while having little impact on medium- and high-skilled native workers.

Much of the debate focuses on whether there is a shortage of U.S.-born workers in science, technology, engineering and math (STEM) fields, which account for roughly two-thirds of visa requests nationwide (Griswold & Salmon, 2020). If U.S. universities aren't producing enough STEM graduates to meet employer demand, foreigners with the requisite skills are supplementing the homegrown tech workforce, not supplanting it. Some analyses of the high-tech labor market suggest that the STEM shortage is a myth. One study published earlier this year by the Economic Policy Institute (EPI), a Washington-based think tank, concluded that the country has "more than a sufficient supply of workers available to work in STEM occupations." Noting that average wages in information technology fields have stagnated or declined in recent years, the study implied that higher inflows of H-1B workers over the past decade have furnished U.S. firms with cheap labor, crowding out U.S.-born workers (Griswold & Salmon, 2020).

Other researchers contend that the STEM shortage is real, that H-1Bs are taking jobs that would otherwise go unfilled (Glennon, 2020). The Brookings Institution, another Washington think tank, refuted EPI's conclusions in a May publication, finding that employers in large metro areas including Minneapolis-St. Paul struggle to fill vacant STEM positions. Lofstrom's research on the earnings of H-1B workers has shown that their wages are comparatively high, suggesting that firms hire them to "bring in skills and expertise that help the companies innovate and grow," not to save money on payroll, he said. The bottom line on immigration for U.S.-born workers? The weight of the evidence suggests that foreign-born labor poses a risk to low-skilled native workers and that some high-skilled workers particularly those of lesser ability have cause for concern. But for most U.S. workers the benefits of immigration outweigh the costs, because of the uplifting economic effects of foreign labor. We know that there are benefits from immigration that result in what we call the immigration surplus, which is an increase in standard of living for natives as a result of immigration," said Orrenius in an interview. Inflows of foreign low-skilled workers allow increased specialization of labor, with immigrants assigned mainly to manual tasks and U.S. natives performing most jobs requiring proficiency in English. Specialization boosts production efficiency and output one reason Peri found in his state study that immigration elevated the wages of highly skilled native workers (Europe, 2020).

Transferring low tech manufacturing jobs to cheap labour countries is often seen as a step into the de-industrialisation of European economies (Parschau & Hauge, 2020). Consequently, policy makers have increasingly been proposing measures aimed at limiting these types of international activities. In France, the 2005 budget offers subsidies to firms that transfer to France activities previously located outside of the European Union. Firms located in French regions highly specialized in one industrial activity and suffering from a high level of unemployment could also receive subsidies. Similarly, in Italy a new law, passed in 2005, prevents firms that transfer a substantial part of their activities abroad from acceding subsidized public funds to support exports or foreign investments (Focacci & Kirov, 2021). In May 2005, the European Parliament's Regional Development Committee has expressed a strong support for the European Commission proposal to impose financial penalties on firms which have received EU funding but then decide to relocate. The Committee also asked for legal measures to ensure that firms receiving European subsidies do not relocate abroad for a "long and predetermined" period. Our analysis is nested in a broad model of investment decision, whereby a firm which has never invested abroad before faces a three way choice: staying national, investing in a cheap labour country or investing in an industrialized economy. It is therefore possible to examine the effect of investing in a cheap labour country in comparison to the baseline of staying at home and also assess if the effects are different when a firm invests in an industrialised economy. This distinction according to the destination of the investment is important, as often the motives and consequently the effects of investing in the two areas can be radically different (Deakin, Marshall, Pinto & Ashiagbor, 2020).

Regarding factor market effects, the main concern is for the labour market, and more precisely for the effects on overall labour demand, on skill composition and on factor prices (Europe, 2020). Overall labour demand is derived from output demand. If output increases, this has positive effects on home employment both for VFDI and HFDI. But investments abroad may also change factor composition and particularly the skill mix of the labour force. Vertical FDI could reduce the demand for unskilled labour in the home economy and increase the demand for skilled labour (Helpman, 2018, Helpman & Krugman 2019, Feenstra & Hanson, 2020). Factor prices should also be affected by these changes in factor demand. For horizontal FDI, the effects are less clear and the theory does not provide clear predictions on the sign of the changes in home factor demand.

Amiti and Wei (2015), a study based on US and UK data finds that, particularly for the UK, outsourcing has not led to employment losses neither in manufacturing nor in services. Boulhol and Fontagné (2006) analyse how far the observed deindustrialization in 16 OECD countries can be related to outsourcing. Their estimations suggest that net trade with low wage countries is associated with an average decrease of around 2 points in the manufacturing employment share between 1970 and 2002. However, this contribution represents only a fifth of the deindustrialization process over the period analyzed. Görg et al. (2015) analyze the impact of outsourcing on productivity at the firm level for a sample of Irish firms. They find that the outsourcing of material inputs has a positive effect on the productivity of those firms which are also exporting. In contrast the effect of outsourced services is not significant.

The most basic measure of labor returns is the wage rate, which includes the basic wage, cost-of-living allowances, and other guaranteed and regularly paid allowances. This is different than the earnings of the workers, where earnings include not only wages but also the overtime payments, bonuses, the gratuities irregularly paid, and payments in kind. To earnings one can add the employer contribution to statutory social security schemes or privately funded social insurance

schemes, and the unfunded employee social benefits paid by employers in the form of: (a) children, spouses, family, education, or other allowances in respect of dependents; (b) payments made to workers because of illness, accidental injury, maternity leave, etc.; (c) severance payments, to obtain the compensation of employees' measurements. Those who supply labor care about this part of the labor cost. If one were to add to this compensation of employees measures of labor market taxes (payroll or employment taxes), labor costs not classified anywhere else (such as the costs of the transport of workers, the cost of clothing for workers, the costs of recruitment, etc.), and the costs of vocational and welfare training, then one would obtain the total labor cost measure.

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