

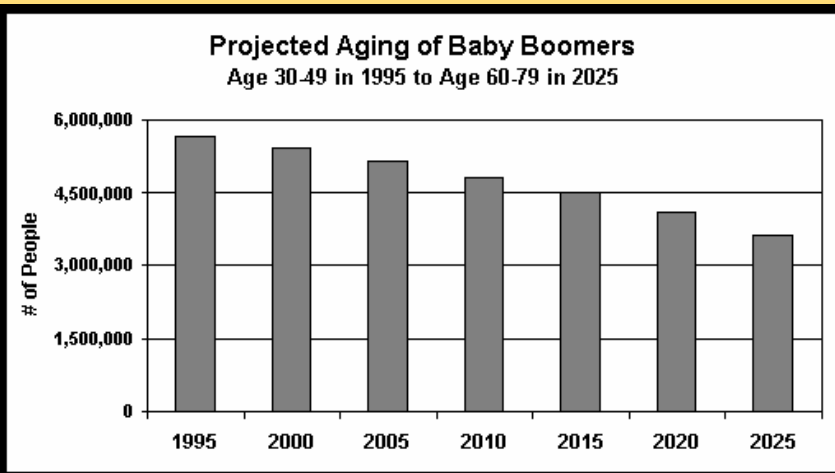
Richard Freeman:

Globalisation and Developing
Labour Market Problems

Wednesday 12 September 2007

What is the real global labor problem?

Labor Shortages vs Great doubling & informalization



Richard B. Freeman, NBER and Harvard
• Centre for Economic Performance, LSE
• Australia, Sept 2007

To hell with the sky
The labor market is falling down:
A Great Labor shortage is coming

Two Visions of the Global Labor Problem

- **HUGE SHORTAGE COMING**

- Why? Demographic factors in advanced countries
- Policy? Help business meet shortage
- through training, more immigration, offshoring

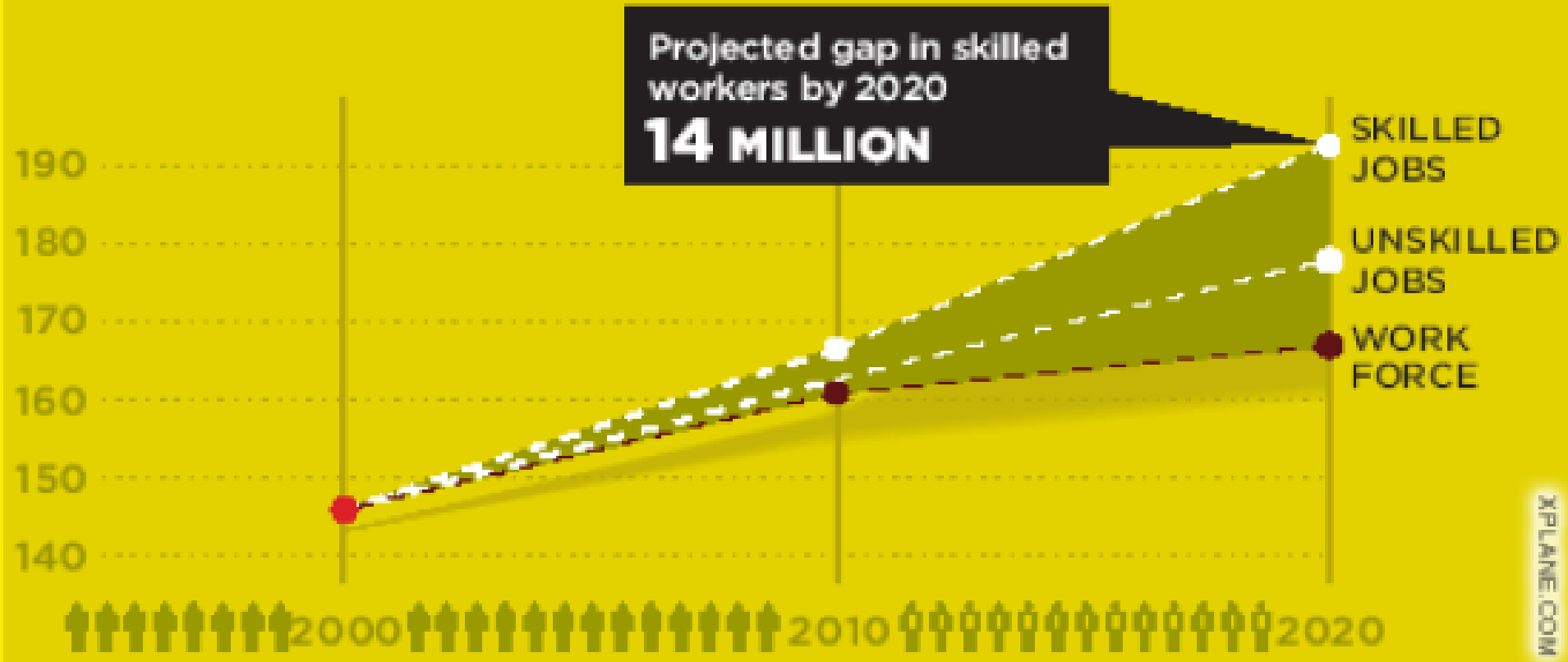
- **GLOBALIZATION AND GREAT DOUBLING**

- Entry of giant populous countries + human resource leapfrogging → rapid growth of highly educated- threatens workers in advanced countries and comparative advantage
- Policy? Help workers meet surplus through training, less immigration, greater

Vision I: Coming Labor Shortage

- Hudson Institute, *Workforce 2020, Beyond Workforce 2020*
- TIME Magazine, The Coming Job Boom: April 29, 2002
“The help-wanted ads may look thin — but thanks to aging baby boomers, that's about to change”
- GAO "Older Workers," "the United States could experience a labor shortage of 35 million” by 2030
- NAM: 5.3 million skilled worker gap by 2010 and 21 million by 2020
- David T. Ellwood: "CEOs, labor leaders, community leaders, all came to the unanimous conclusion that we will have a worker gap that is a very serious one.”
- FORTUNE “Believe It or Not, a Labor Shortage Is Coming” Oct 7, 2003

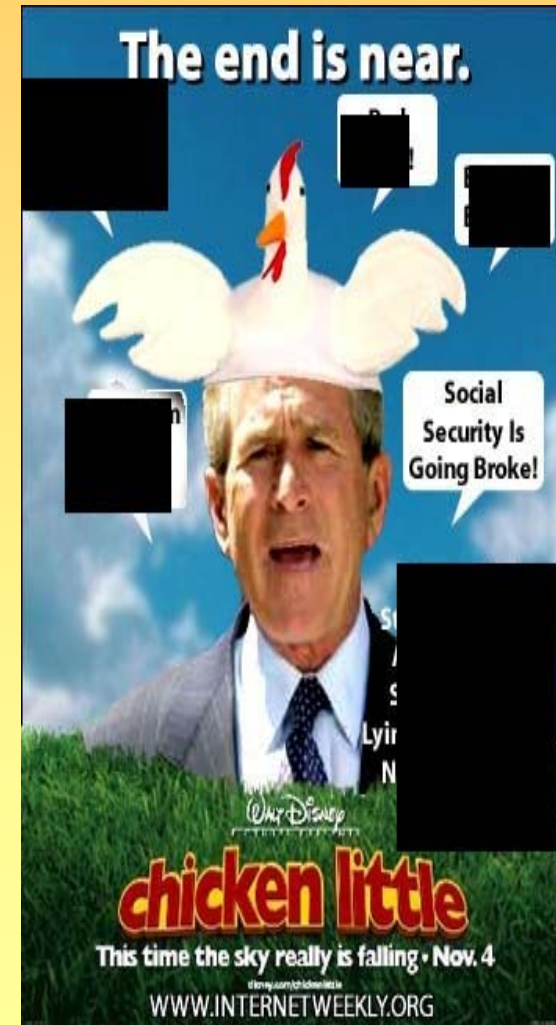
Numbers of jobs and workers, in millions
(adjusted for multiple job-holding)



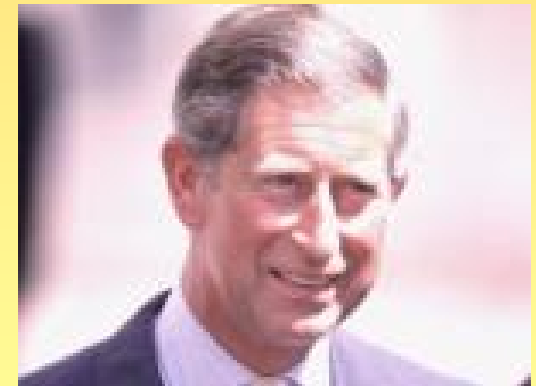
Sources: David Ellwood/Aspen Institute's Domestic Strategy Group; Anthony P. Carnevale and Donna M. Desrochers, Educational Testing Service

“More jobs than workers. Firms might have to increase wages. A wage increase for workers? I must go and tell the king. Something must be done.

- If current trends continue, the labor force will only grow to 165 million by 2030, a shortage of 35 million workers ... serious consequences, slower growth in the standard of living, change in the balance of payments, “wage-push” inflation, ... Inequality, persistent structural unemployment – EPF, 2001
- “the long term tragedy of off shoring isn’t that it’s snatching away skilled American jobs but that it isn’t snatching enough of them” – Paul Kaihla, Sept 2003



**For Replacement Demand to Have
Positive Effect, Need Stable or well-
predicted demand but predicting
demand is subject to great
uncertainty**

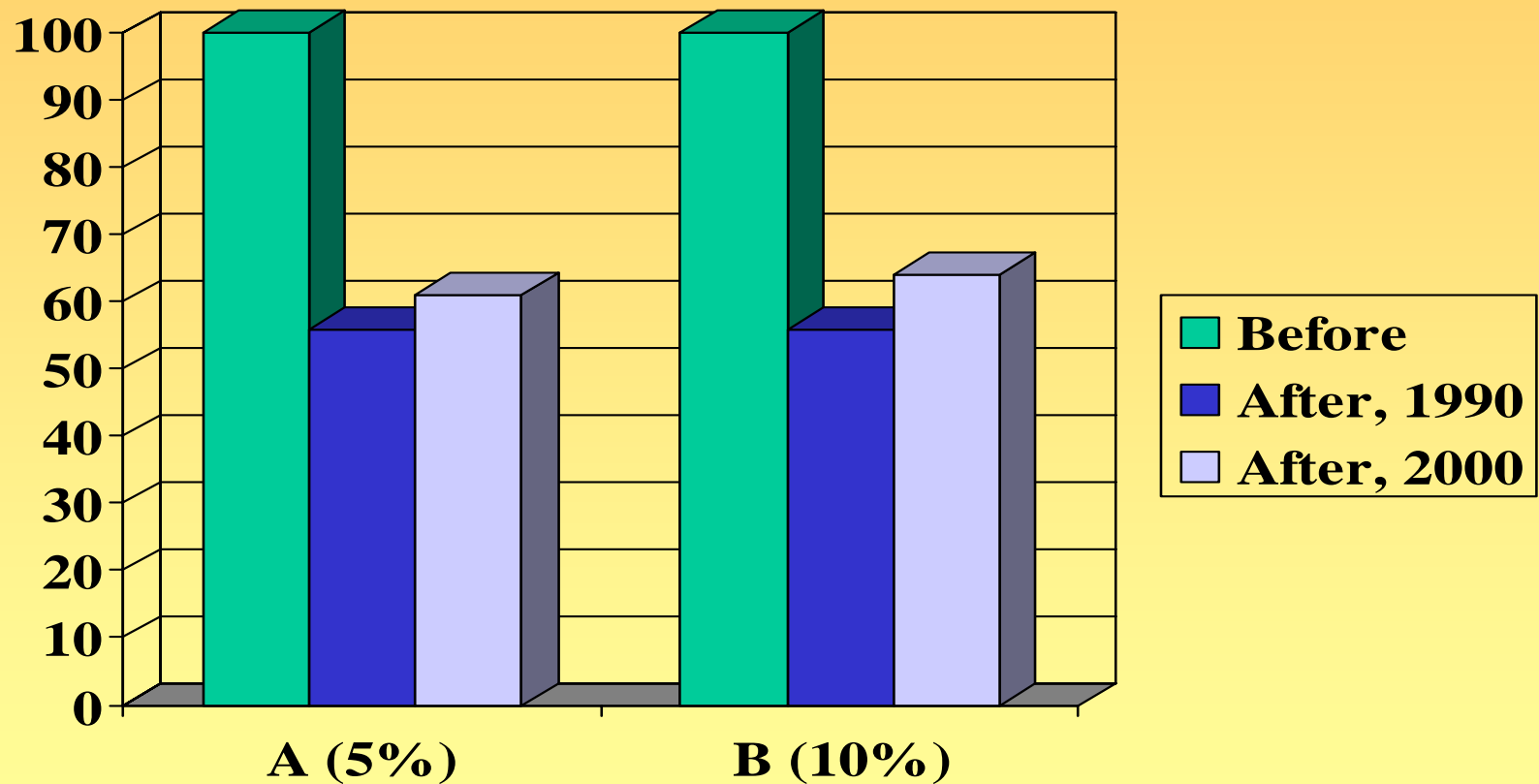


Vision II: GREAT DOUBLING → labor surplus

- Millions of Economical Active Persons
- Global Advanced LDC
- New
- 2000 Before 1460 460 1000 ---
- 2000 After 2930 460 1000
- 1470*

	Global	Advanced	LDC	
2000 Before	1460	460	1000	---
2000 After	2930	460	1000	
1470*				

Doubling Labor force \rightarrow fall in global K/L Ratio



Source: Capital stock estimated from Penn World Tables, using 5% and 10% depreciation rates and perpetual inventory method

The 1990s NAFTA Message to workers:

“Don’t worry. These are all less educated and low skilled, so they won’t compete with you”

- Trade theory says factor proportions given → skilled US should benefit. But they are getting skilled very fast:

Enrollments	1970	1980	1990	2000-2
World	29.4	55.3	67.6	112.3
US	8.5	12.1	13.7	15.9
Non US Advanced Countries	4.9	8.2	12.9	18.8
Developing Countries	16.0	35.0	41.0	77.5
China	.05	1.7	3.8	12.1
India	2.5	3.5	5.0	9.8
US share of world	.289	.219	.203	.142

Ratio of #S&E PhDs from Foreign Universities to # from US Universities

	1975	1989	2001	2003 ^a	2010 ^a
Asia major nations	0.22	0.48	0.96		
China	na	0.05	0.32	0.49	1.26
Japan	0.11	0.16	0.29		
EU major (Fr, Germ, UK)	0.64	0.84	1.07		
All EU	0.93	1.22	1.54	1.62 ^c	1.92 ^c
Chinese ‘diaspora’ vs. US ‘stayers’ (estimate)			0.72 ^b		

^a For 2003 & 2010, ratios calculated using US doctorates at 2001 production level.

^b ‘diaspora’ includes estimates of Chinese doctoral graduates from UK, Japan, and US (with temporary visas). US ‘stayers’ include US citizens and permanent residents

^c EU data extrapolated from earlier years.

Four Claims

- I. Demography does not dominate.
- II. Developing countries human resource leapfrogging moves many to sci-tech frontier
- III. Developing world employment is going informal
- IV. Advanced countries cannot have shortage in global labor market: issue is matter of national/foreign-born balance, not shortage;
- V. **REAL STORY is that we are in an epoch of major labor transition to a single world market**

Claim 1 Trends in population aged 15-59

country	1975	2000	2025	2050
US	132	176	196	217
West Europe	99	113	100	86
Japan	71	79	65	49
US share of	44%	48%	54%	62%
China	497	829	913	787
India	335	594	869	939

World	2223	3636	4818	5404
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Demographic Changes Do Not Greatly Affect Earnings or Employment by Age

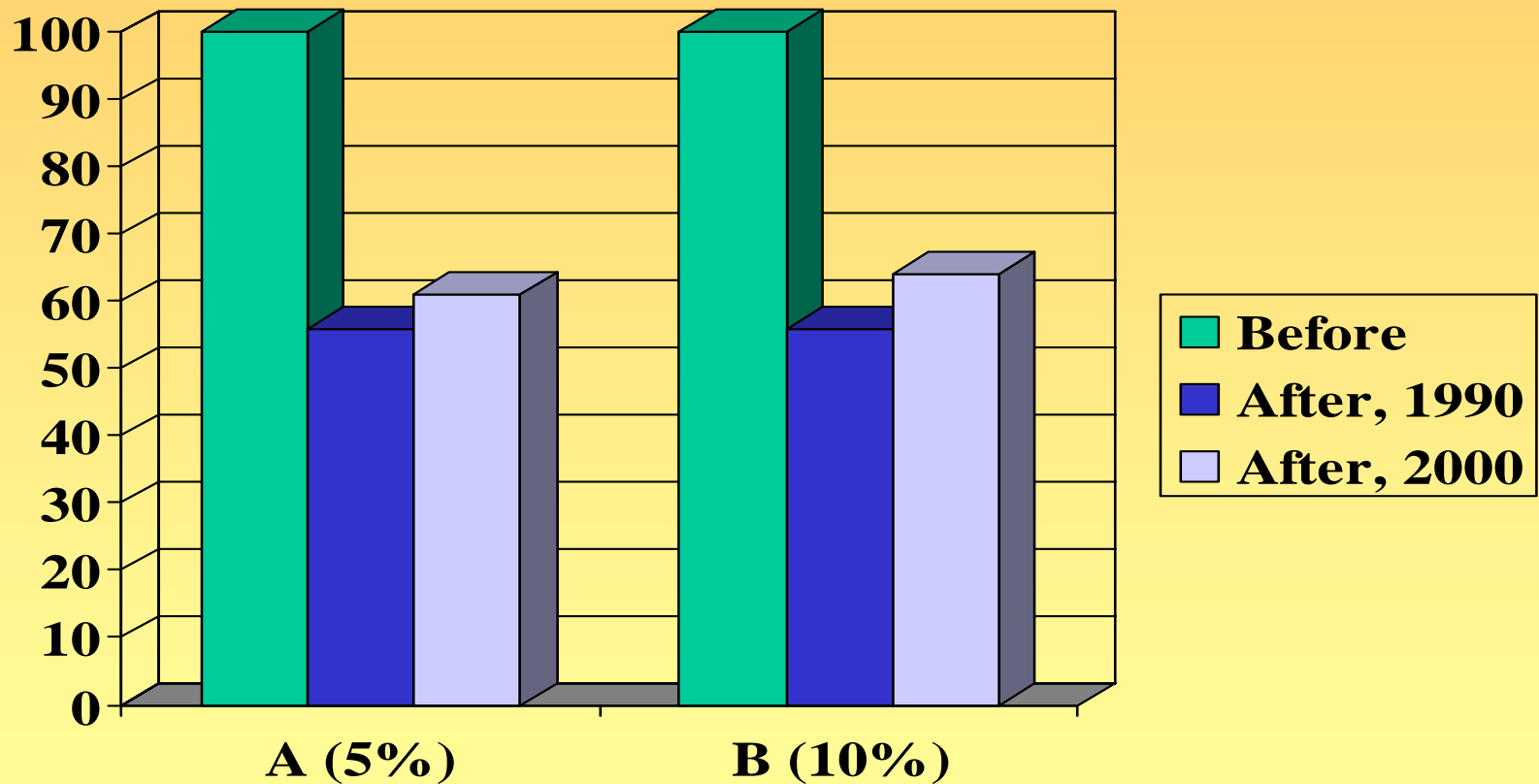
- When Baby boomers entered job market the age-earnings profile shifted against them
- When post-baby boomers entered job market
- the age-earnings profile did not return to previous level.
- Youth employment rate did not rise with smaller cohorts
- Worldwide, change in age structure did not have impact that analysts expected

Claim 2: the GREAT DOUBLING

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Doubling Labor force \rightarrow fall in global K/L Ratio – Shortage of Capital!



Source: Capital stock estimated from Penn World Tables, using 5% and 10% depreciation rates and perpetual inventory method

Millions of Enrollments in Higher Education Worldwide And the US Share of World Enrollments

Enrollments	1970	1980	1990	2000-2
World	29.4	55.3	67.6	112.3
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Trump cards to shortage vision: Global Sourcing of skilled developing country workers; & growing Informalization



- World “surplus” of less skilled → informal sector grows despite economic development; large supply of competing skilled; many come as immigrants
- New globalization: trade, immigration, spread of technology, off-shoring → should trump changes in demography

With Huge Supplies outside US, Trend in Foreign-born Share of S&E Employment

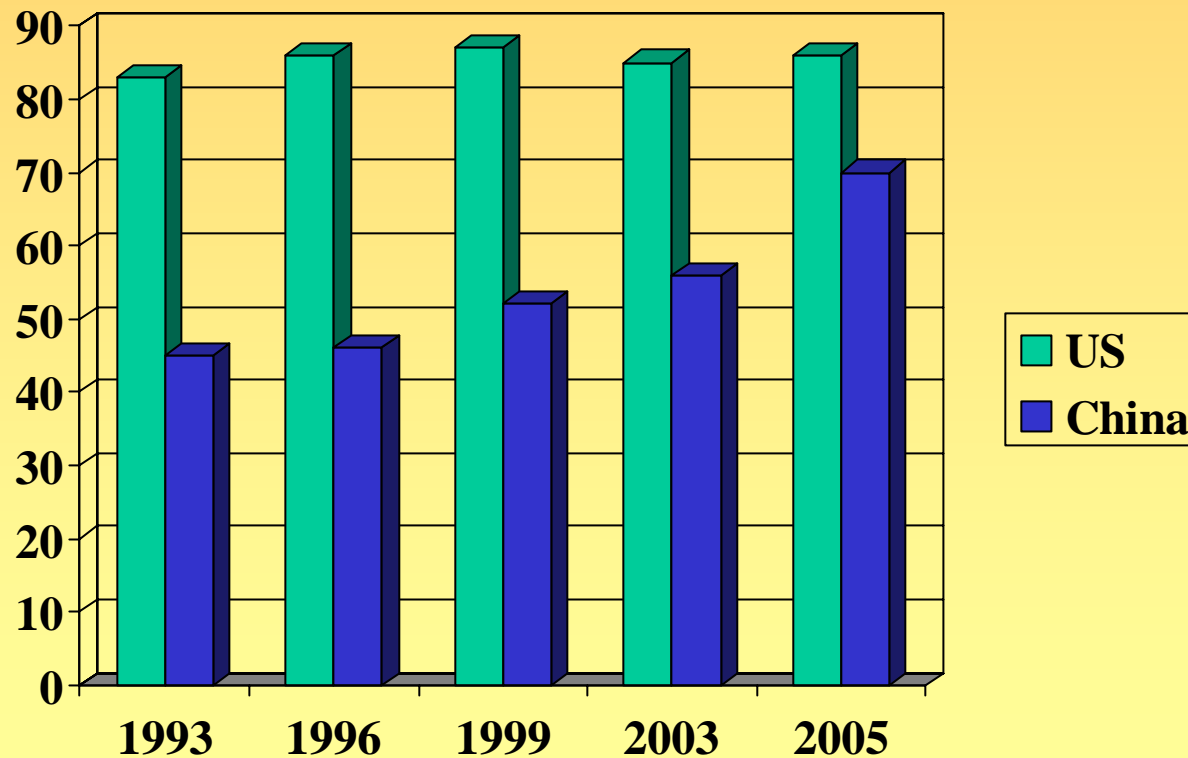
	1990	2000
–		
– Bachelors	11%	17%
– Masters	19%	29%
– All PhD	24%	38%
– PhDs < 45	27%	52%
– Post-Doc	51%	60%
–		

– Source: all but post-docs from Census of Population; Post-Docs from NSF

Challenge in comparative advantage

- Advanced North does not have monopoly over technological change and innovation. China is not going to specialize in low wage sectors that produce old goods and forego high tech
- Human Resource Leapfrogging model: Large numbers educated in South + digitalization of knowledge work + low wages → South can compete in high tech if what matters is the absolute number of scientists and engineers

Technology: China Moves up in Average of Ga Tech Indices



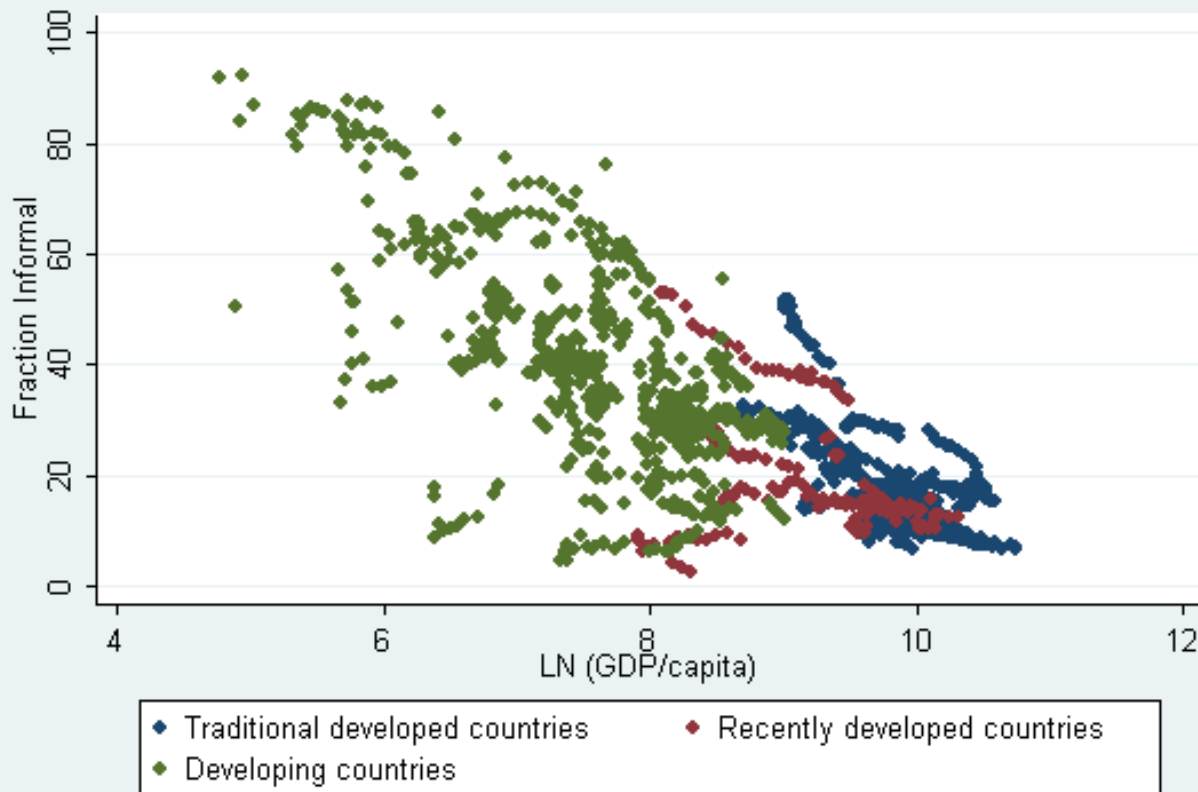
The 806 pound gorilla in the global job market: informalization of labor

ILO “self-employed; wage workers in insecure and unprotected jobs (unregistered, casual, temporary); household workers”, (but self-employed includes high wage independent professionals)



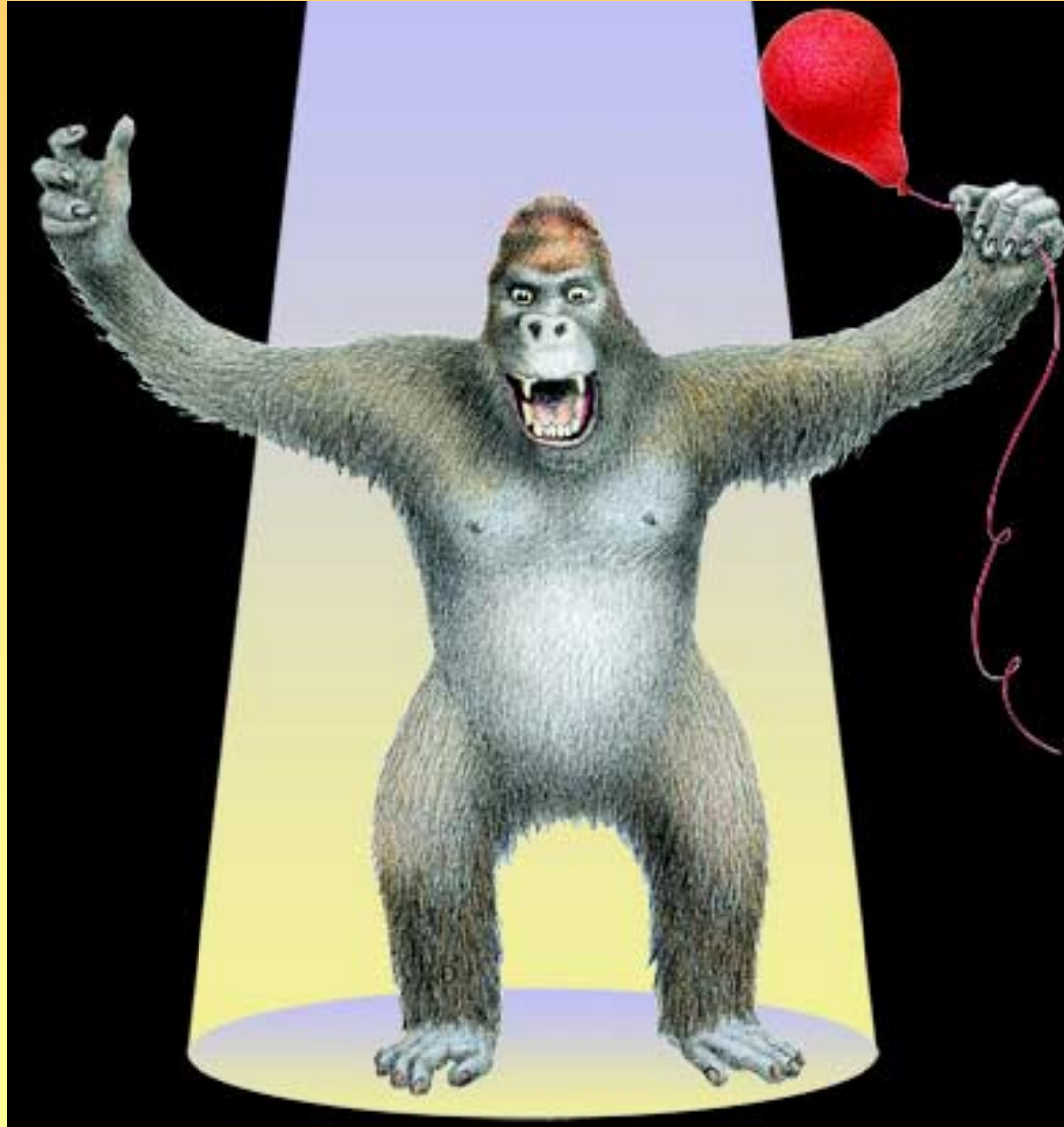
Most measures include workers employed by someone else without social insurance – Latin America, usually whether deduction for government pension

Standard assumption was that formal sector employment grew with development so danger was that institutions would slow the flow of labor



Pooled Cross-section relation of non paid share of employment with ln GDP per capita, 1980 to 2005, multiple observations for 110 countries. Regression gives coefficient -11.0 and t of 38.8 on ln GDP/cap and coefficient of -9.6 with t of 5.70 when add fixed country and year effects specification

But Informal grows with development



- 1) **Self-employment share of non-agricultural Employment,**
- 2) 1980s to 1990s; **World 26% to 32% ; Africa 44% to 48%; Latin America, 29% to 44%; Asia 26% to 32% (ILO 2002)**

- **2) Selected Country measures, 10 largest population**

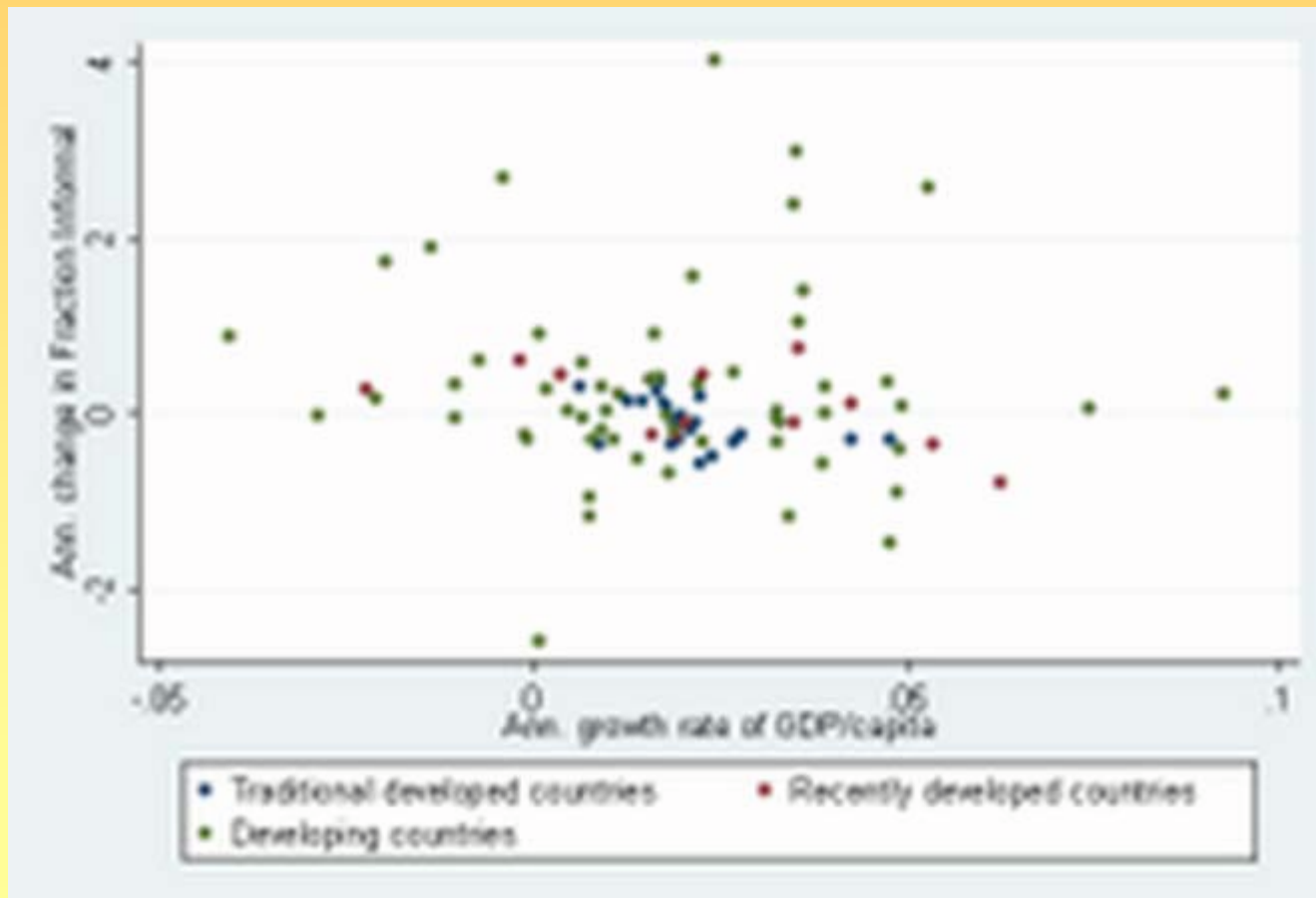
• China	1990 to 2005	51% to 52.8%
• India	1993/4 to 2004/5	92.7% to 94.1%
• Indonesia	1990 to 2003	28.2% to 28.2%
• Brazil Urban	1990 to 2003:	40.6% to 44.6%
• Pakistan, urban	1997/8 to 2001/2	64.6% to 66.5%
• Nigeria, urban	1970s to 1990s	50% to 65%
• Mexico	1991 to 1998	61.2% to 63.6%
• Philippines	1999 to 2003	78% to 81%
• Bangladesh	2000s	65%
• Vietnam	2000s	70%

- Magnitudes in some others : Ethiopia, 71%;

- Sub-Saharan Africa, 78% of nonagriculture;

NO RELATION BETWEEN GDP GROWTH AND INFORMAL IN RECENT DECADE

Average annual change in % nonpaid vs average annual growth rate of GDP per capita, 92 countries, 1992-2004



Fraction of employment that is informal in CHINA (OECD)

Year	National	Urban	Rural
1990	64.0%	17.5%	80.6%
1991	63.2%	16.9%	80.0%
1992	61.6%	17.2%	78.0%
1993	59.3%	18.8%	74.6%
1994	59.6%	18.2%	75.4%
1995	58.6%	19.7%	73.8%
1996	58.3%	23.6%	72.4%
1997	59.8%	27.7%	73.4%
1998	64.3%	41.3%	74.4%
1999	65.2%	46.0%	74.1%
2000	66.1%	50.0%	73.8%
2001	66.8%	53.5%	73.3%
2002	67.2%	56.1%	72.9%
2003	67.2%	57.8%	72.2%
2004	67.0%	58.7%	71.5%
2005	66.4%	58.9%	70.6%

- **Laborers lining up on Mass. Streets** By Maria Sacchetti, Globe Staff | August 4, 2007
- **SOMERVILLE --** The middle-aged man in the USA baseball cap had lingered at Foss Park for hours, hunting for a day's work. Suddenly a contractor zoomed up in a pickup truck. The laborer, an immigrant from Brazil named Luiz, elbowed past workers half his age and thrust a business card at the driver. Then he frantically waved a certificate saying he was a trained drywaller. "Look," Luiz said, leaning into the window. "I have experience."
- The driver pointed to another man, who hopped in the truck, and they sped off. Dejected, Luiz retreated to the sidewalk to wait for the next truck. "I worry," said Luiz, 47, who is the country illegally and would not give his last name. "I'm waiting, or I can't pay my rent."
- The day-labor stand at the busy corner of Broadway and McGrath O'Brien Highway has transformed in the past five years into an open-air market for hustling work. ... Day laborers are typically the newest immigrants who compete on street corners and near home improvement stores for odd jobs, paid in cash.
- Researchers and area residents say day laborers started appearing in the state, mainly in eastern Massachusetts, around the late 1990s during a construction boom. ... Last year, Boston police cleared day laborers from South Bay Center because of complaints that they were trespassing on private property, but now they are back, living in tents nearby. In Framingham, immigration-control activists posted employers' license plates on a website, but complain that little has been done.

- Why is time trend different from historical pattern?



1 – Importing modern technology to LDCs?

2 – Outsourcing mfg to informal sector?

World mfg employment down; China mfg employment fallen even as China becomes global mfg producer, so productivity very important

Why formal employment not expand in wholesale and retail and service?

Most of World Manufacturing Employment as Share of Paid Employment

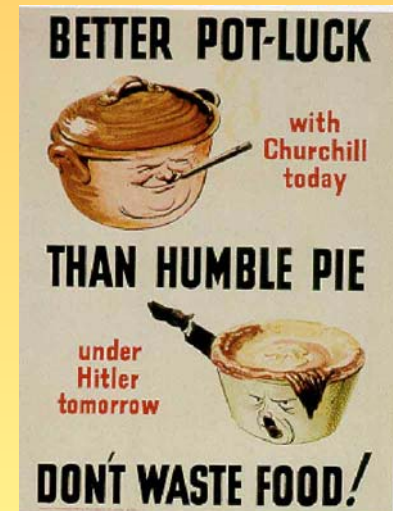
Year	All sectors	Manufacturing	
1993	565,611,864	144,886,746	25.62%
1994	543,747,505	140,718,408	25.88%
1995	559,889,339	141,201,380	25.22%
1996	566,746,534	139,936,819	24.69%
1997	572,085,026	138,592,612	24.23%
1998	555,886,699	125,339,653	22.55%
1999	555,094,208	121,167,916	21.83%
2000	574,542,505	120,562,749	20.98%
2001	560,663,485	115,502,758	20.60%
2002	571,634,118	112,885,063	19.75%
2003	595,399,358	114,268,213	19.19%
2004	605,737,472	115,560,433	19.08%

Consensus Neo-classical economics vision of development

- **Trade:** “Few economists would doubt the beneficial effects of trade, despite the adverse impact on some group. Yet the hard evidence supporting such gains from trade – either in a dynamic or static sense – is surprisingly thin” –Rob Feenstra (NBER) ;
- “Rising trade volumes are unambiguously related to growth, but the direction of causation is unclear.” –Zagha, Nankini, & Gill (IMF, 2006)
- **Capital Flows:** “further research is clearly needed in a number of areas before one can derive strong policy conclusions. ... some of the more extreme polemic claims made about the effects of financial globalization on developing countries, both pro and con, are far less easy to substantiate than either side generally cares to admit. *Kose, Prasad, Rogoff, & Wei* – (IMF, 2007) ; “(G)reater caution toward certain forms of foreign capital inflows might be warranted” – Prasad, Rajan, & Subramian (IMF, 2007)

World Bank And IMF Economists eat Humble Pie

- ***The Washington Consensus has been dead for years,” Wolfman I (World Bank President Wolfensohn 2004).***



- **”expectations about the impact of reforms on growth were unrealistic**
- **...governments need to be made accountable, not bypassed ...should**
- **abandon formulaic policymaking in which "any reform goes" ... our**
- **knowledge of economic growth is extremely incomplete. This calls for**
- **more humility in the manner in which economic policy advice is given,**
- **more**
- **recognition that an economic system may not always respond as predicted.—**

Zogha Nankini & Cill (IMF 2006)

V Transition ~50 years with lots of potential problems

- More within country inequality → instability
- Pressure on workers in many occupations
- Capital in drivers' seat → ???
- 1. Problem For traditional LDCs :
 - Informal sector grows → old strategy of growth through low wage mfg for global market, heart of Wash Consensus, does not work
 - 2. China – how long can country succeed without democracy;
 - It is trying to strengthen unions with new labor law
 - 3. Reduced comparative advantage for US, difficult to have shared prosperity
 - 4. Environmental disaster?

Multinationals as Agents of Global Equalization

- “Doing the Lord’s work in LDCs; Devil’s work in advanced countries”
- Multinationals spread knowledge and improve jobs in LDCs but reduce worker well-being in advanced countries.
- CAPITAL WINS – combine capital and knowledge with low-cost labor → big profits
- **Forget the multinational, says IBM chief executive Sam Palmisano. "Global integration" is now the way to go for large organizations**

Need New policies

- Should shift from protection of capital as main purpose to protection of labor.
- IMF, World Bank, etc need to develop new thoughts and policies for the great doubling
- Less orthodox Washington Consensus
- More political economy thinking?
- More honesty with citizens?

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