PERGAMON

Geoforum 30 (1999) 263–284

GEOFORUM

www.elsevier.com/locate/geoforum

Putting capital in its place: globalization and the prospects for labor☆

Richard A. Walker *

Department of Geography, University of California, Berkeley, CA 94720, USA

Received 16 September 1998; in revised form 15 March 1999

Abstract

The fate of workers in the face of globalization has been much decried and debated, but usually from the wrong angle. The focus of conventional discussion is almost always on labor markets and the woes of international wage competition. In critical approaches, the miracle of global capital mobility and the power of transnational corporations come in for the most attention, for their presumed role in the offshoring of industry from the advanced economies and build-up of cheap-labor platforms in the newly industrializing countries. In contrast, the argument presented here points the finger of blame away from the economic failings of workers and successes of capital to the worldwide *political* defeat of the working class and global *economic* failures of capitalism.

A pressing question of our time is the fate of labor and the working people of the world in the face of the rampant globalization of capitalism. Much ink has been spilled on the topic and some titanic political battles have been shaped by the debate, including those over the North American Free Trade Alliance (NAFTA) and, in Europe, over the single currency, high unemployment, and the 35 hour work week. My own locale, California, has been swept by fierce political disputes over immigration, taxation, health care and other matters of moment to people feeling the pressure on incomes. While there may be no definitive answer to the question 'does globalism raise or lower wages?', we can nevertheless frame the matter squarely in economic, geographic and political terms, so that our discussion is not cock-eyed from the outset. In so doing, we can shift the balance of debate away from the labor markets, where it almost always rests, toward a discussion of global *capital*. This will run counter to the prevailing view that stagnant wages in the US or high unemployment in Europe are due chiefly to the competition of foreign workers, failures of labor training or flexibility, or the miracle of globally mobile capital. Indeed, I want most of all to point the finger of blame away from the failings of workers to the *political* successes and *economic* failures of capital.

I take as my starting point the plain evidence that these are hard times for the working class around the world. The majority of working people are no better off than they were a quarter century ago and many are much worse off. In the Northern Tier countries (defined as the members of the Organization for Economic Cooperation and Development (OECD) or Group of Eight) for the period 1973 to 1996, the average rate of wage increase was only one-third that of the preceding 25 years, while the rate of unemployment was double that of the postwar era. On average, workers suffer greater job insecurity and more widespread unemployment than before. The 'productivity wage' of the postwar era, when wages could be expected to rise in tandem with productivity and national output, is but a hazy memory of a Golden Age that lasted all of a decade or two in America and Europe. Workers also suffer the indignity of greater inequality as compared with the ballooning incomes and wealth of the rich, particularly the top 5% of people who own most of the capital (property and financial assets) in the world.[1]

Unhappily, the US, which will serve as my chief point of reference, leads the way in most indicators of

☆ I would like to dedicate this paper to the memory of Ric Gordon of Santa Cruz, who was a partisan of labor and political change, as well as great fun to be around, and who died far too young.

* Tel.: +1-510-642-3903; e-mail: walker@socrates.berkeley.edu

[1] Moody (1997). The Golden Age was more chequered than usually realized, Webber and Rigby (1996).

0016-7185/99/$ - see front matter
PII: S0016-7185(99)00016-0

inequality and wage erosion among Northern Tier countries.[2]

- Real hourly wages for all employees fell by 12% between 1973 and 1990 and remained flat throughout the 'boom' of the 1990s.
- The median family of four earned the same in real income 1996 as in 1973, while working more hours.
- The average working year was four weeks longer in 1990 than 1960.
- More people are working extra jobs and women's 'second shift' gives them a 65 hour average work week.
- Inequality between skilled and unskilled workers increased.
- Unemployment was on average double that of the previous twenty-five years.
- The volatility of employment (labor market churning) increased by over 40% between 1970 and 1987.
- Union membership declined from 35% in 1955 to under 15% in 1996.
- Strikes fell almost 90% from peaks in the 1950s, 1960s and 1970s to the doldrums of the 1990s.
- The wealth of the bottom 40% fell by half from 1983 to 1992 while that of the top 20% grew by one-fifth.

The chief determinants of wages need to be laid out conceptually and weighed against the evidence. The first is the *productivity of labor*, or the state of production. Where productivity is high and rising, wages should reflect this over time – if the profit-wage split is constant. Long term improvement in production (technological progress) is the essence of industrialization, the principal source of the wealth of the advanced capitalist nations, and the origin of favorable wages compared with the poorer regions of the earth. High productivity is a necessary but not sufficient condition for good wages, however.

Productivity only delivers good wages if the working class has the historic capacity to extract a good *price for its laboring power*, i.e., a fair share of the social product. Distribution of income depends first of all on the price of labor-power established in the labor market. Supply and demand conditions may be more or less favorable to workers and wages. They gain leverage against capital through their relative scarcity, unity and experience in the market(s) for labor; they usually lose where supply is too great, workers are inexperienced, or skills are few. Workers' bargaining strength is also undermined by the repeated restructuring of labor demand in the course of industrial change, brought about by new technologies and the search for higher productivity.

The first two factors, labor productivity and labor price, are the focus of conventional debates about globalization and the fate of workers. But the net of causality must be cast more widely in order to capture two other forces entertained begrudgingly, if at all, outside the chambers of organized labor or the academic left: politics and profits.

The third determinant of wages is the *politics of labor*, or what used to be called class struggle and is now politely called 'the social contract' or 'the labor regime'. Economies are not bare-bones systems of markets and prices, production and trade. They are political through and through in two senses. On the one hand, the contending classes are engaged in strategic action to improve their share of income (surplus value); i.e., capitalists maneuver to strengthen their hand in bargaining and weaken labor; workers organize to increase their collective strength. On the other hand, classes seek advantage in the arenas of the state, which shape the operations of markets fundamentally, whether through taxes on incomes, tariffs on trade, the law of property rights, or rules governing union elections.

The last determinant is *profit on investment*, or the state of capital accumulation. Where capital is earning a good return and reinvesting briskly, productivity and wages ought to be rising. But this is not always so; profits may dip and crisis set in. This can reduce the supply of capital (investment) and the demand for labor. That, in turn, can undermine productivity gains and the strength of labor while steeling the resolve of capital to extract a higher rate of surplus value by reducing wages and other indirect strategies to weaken workers' power. The Bible and Karl Marx agree that 'the first shall be last and the last shall be first', and while neither the meek nor the proletariat may inherit the earth, capital has come as close as anything to doing so; therefore, we shall see that capital accumulation is very likely the most important condition for the well-being of labor today.

Finally, economics and political analysis of whatever stripe is not enough if it leaves out geography. We must, therefore, take into account a fifth dimension of the problem: the *conditions of place(s)* – regions, countries, continents – as distinct combinations of the previous elements of economy and politics, and how they interact in larger systems of spatial relations all the way up to the global scale.

One can therefore speak of the "five Ps of political economy": production, price, politics, profits, and place. I will devote a section of the paper to each. Corresponding to each is a prevailing myth that clouds the issue and prevents clear understanding by workers of their situation. These myths are rampant in the labor movement of the US. And in every case the trick of ideology is to turn the light of causality and blame

[2] Sources, in order: Brenner (1998, pp. 4–5), Belman and Lee (1996), Schor (1991), ibid. Belman and Lee (1996), Borjas and Freeman (1992), Brenner (1998, pp. 4–5), Gottschalk and Moffitt (1994), Moody (1997), Brenner (1998, p. 195) and Wolman and Colamosca (1997, p. 174). For comparable figures on California, see Benner (1999).

toward the worker and away from the shadowy world of capital. The first is that productivity resides in the individual worker, not in the conditions of the social economy. The second is that excess labor supply is the critical weakness dogging workers' bargaining position. The third is that neo-liberalism is about freeing up markets rather than freeing capital from the shackles of labor's power. The fourth is that stagnant wages are due more to wage-competition than stagnant profits. The fifth and last myth is that globalism is a *fait accompli* that means 'the end of geography'. And because nothing can be sensibly said about labor and globalization without taking geography into account, I will begin with a discussion of place.

1. Place and globalism

The ruling myth holds that globalization is no longer a trend in capitalist development, but a full-fledged reality. Capital flows are global, competition is global, manufacturing is global, and labor migration is global.[3] This myth is joined at the hip with the myth of least-cost location, which says that the danger of industry fleeing to offshore sites is immediate and universal, because capital is instantly fluid and utterly indifferent to where it operates manufacturing plants. It means that workers in all countries are in direct competition for the same jobs, and that the cheapest and most docile labor will be the winner in the capitalist beauty contest. It means that any government that taxes or regulates or otherwise pollutes the 'local business climate' will drive off investors to distant shores, hurting its own working people. Globalism is thus the perfect excuse to do nothing – that inhibits the freedom of capital. We are helpless before it. It tightens the competitive screws and forces market discipline on the foolish ones who try to stand up to the dictatorship of capital.

In fact, there are still very definite limits to capital mobility, to the internationalization of manufacturing, to the movements of people between countries, and to the boundaries of competition. Geography still matters enormously in the course of capitalist development. There may be a "world system" of the global economy, but there are also a host of "local capitalism's" with sharply different ways of doing things and divergent histories, or development paths.[4] Mostly, these differences are associated with national boundaries, nation-states and national cultures. But the specificities of place apply at other scales as well, from the urban to the continental. Ironically, globalization has been paralleled by the strengthening, in many areas, of regional and continental scales of economic integration.

Many commentators have noted what they call the resurgence of the region (or the local).[5] Regions have weakly defined boundaries, by comparison to nation-states, and the term is often used rather loosely – as in the concentric circles one might draw around Hong Kong, Guandong Province, or the whole South China sea region – but they have an economic, social and often political integrity, all the same. Most contemporary regionalists are referring to industrial districts at the scale of a city or small province, but the phenomenon of regionalization is much more general. The US, for example, has a long history of regional diversity, as do all other countries large and small. The state of California, my own vantage point, has many of the characteristics of a nation apart.[6]

Continental groupings are another important geographic unit of the world system, as emphasized by recent trends toward integration at this scale under the European Union (EU), NAFTA, and throughout East Asia. The EU in particular has closed its borders to the outside world, so that it now collectively trades less with the global economy than it did in the 1960s. NAFTA is a similar device to strengthen North American ties in the face of global competition; it represents as much a turning away from globalization as a confirmation of it. Japanese overseas investment and trade are strongly regionalized in Southeast Asia and relatively minor in Europe.[7]

In other words, globalization has not eroded all shores on which local difference and competitive advantage are anchored. International trade volume in no way eliminates the points on the map between which trade takes place. Cross-border production systems may defy easy identification of national origins but do not erase the specificities of places in which various components are made. Internal flows of goods within multinational corporations do not eliminate the spatial division of labor, they simply alter its organizational form. The specific qualities that confer productive competence and competitive advantage remain anchored to localities in a variety of ways, and the global economy – whether viewed as an international trading system, multinational corporate system, or a global joint-venture system of innovation – might best be

[3] For surveys of globalization, see Dicken (1998) and Castells (1996). Examples of globalist excess are O'Brien (1992) and Greider (1996). For a general critique, see Hirst and Thompson (1996).

[4] Porter (1990), Pred and Watts (1992), Putnam (1993), Cox (1997) and Hart (1998).

[5] Piore and Sabel (1984), Cooke (1989) and Storper and Scott (1992).

[6] See e.g., McWilliams (1949), Wright (1986), Page and Walker (1991), Worster (1992) and Walker (1997).

[7] On the origins and development of the EU, see Urwin (1995) and Keegan (1996). On NAFTA, Orme (1996) and Wise (1998). On Japanese investment, Aoyama (1996).

thought of in terms of local nodes and distant networks.[8]

The reason that nations and regional nodes can thrive in a global economy is that certain place-specific assets cannot be easily replicated. Classically, these have been seen as local "endowments" of natural resources and labor skills. California, for example, waxed fat on its earthly riches, such as gold, silver, oil and soil. But more important, it developed some of the great concentrations of skilled labor (and capable firms) on earth. These constitute an exceptional production base, a localized network of thousands of workers and suppliers of every kind of product, skill and know-how there is. This is an essential feature of the fecund industrial districts of Silicon Valley, Hollywood, or the aerospace crescent of Los Angeles. And to this mix add the great pools of capital, especially the foremost venture capital funds in the world, and the great research centers in and around the universities and medical schools. Here lie the foundations for sustained economic growth.[9]

The curious thing is that California is thought of as one of the most placeless societies on earth, one known for its endless in-migration of people from somewhere else, yet its peculiar character as a place has been reinforced by this very feature. More broadly, the US has been the world's leading example of a large free-trade zone for almost 200 years, and yet even here regional differences have still not disappeared, even in something as theoretically fungible as technology.[10] This ought to serve as a warning against glib pronouncements about the 'end of geography'.

The demise of the nation-state in the face of capital mobility is a recurrent theme of the globalization myth. But this erosion of boundaries must be carefully assessed. The most striking examples of border reduction are in Europe, a place of small nations that embarked long ago on a political mission to overcome its internal fragmentation and propensity for internecine warfare.[11] Large countries such as the US, Japan and China remain remarkably insular in their political and social development by contrast. Russia and Central Asia have moved in the opposite direction of Europe, of course, fragmenting into more isolated nation-states with the break-up of the Soviet empire and economic trade bloc.

The US remains less open to international trade than most nations. US import-export exposure remains around one-fifth of Gross Domestic Product (GDP), up from 14% in 1976 to 21% in 1996 (manufacturing is two-thirds of foreign trade, however). And some smaller nations often thought to be heavily reliant on global exports, like Korea, are much less so than traditional traders like Britain. Paul Krugman has been the most prominent voice among international economists asserting the continuing vitality of national economies against the prophets of globalization, and he has scored many a point against his opponents on the relative openness of national economies. The whole world is not Hong Kong or Britain.[12]

Nonetheless, the expansion of global investment, manufacturing and trade over the last fifty years has been striking. The stock of foreign direct investment (in productive capacity), which accelerated dramatically in the 1980s and 1990s, had reached \$2 trillion by 1992. Merchandise trade expanded at four time the rate of manufacturing output over the entire period 1950–1994, with a steadily widening gap between rates. Today, close to one-fourth of global manufacturing output is traded. Services are less readily traded, but even so volume of global trade is still up from 8% of world GDP in 1900 to 15% in 1992.[13]

The case for globalization is most striking in the realm of money and finance. This is where the figures stretch credulity. There was \$1.2 trillion in currency exchange and \$500 billion in bond transactions per day in 1992, 25 times the amount of commodity trade. Certainly, money capital is vastly more mobile than it was a generation ago, thanks to an electronic and institutional revolution in finance, and it puts the monetary policy of every country (and even of collective international efforts) in jeopardy to the forces of the market and financial speculation.[14] Yet three things need to be kept in mind about this phenomenon. The first is that money is by definition the most fluid form of capital and the most abstracted from the grit of production, goods and everyday life; we should expect it to be the most placeless element of the modern economy. The second is that has been a general shift of capital out of production and into the financial sphere, much of which is unproductive and speculative; money can slosh about the globe often with little connection to trends in real output and trade. The third is that despite the international mobility of money, the biggest financial crises of the last two decades – the US Savings and Loan debacle (\$250–500 billion in bad debt) and the Japanese banking fiasco (\$1 trillion in bad loans – equal to almost one-quarter of GNP) – were almost entirely internally generated.[15]

[8] Amin and Thrift (1992), Storper (1997) and Scott (1998).

[9] Scott (1993), Saxenian (1994) and Walker (1996, 1998).

[10] Rigby and Essletzbichler (1997). Note the continuing technological leadership of California in fields such as electronics, software, communications and entertainment.

[11] Urwin (1995).

[12] Krugman (1995, 1998).

[13] Castells (1996 p. 84), Dicken (1998, pp. 25–29) and Rodrik (1997, p. 7).

[14] Walter (1993) and Leyshon and Thrift (1997).

[15] On money in general, see Marx (1863), Harvey (1982, 1985), and Leyshon and Thrift (1997). On the disconnection of finance from production, see Henwood (1997). On the S&L fiasco, see Meyer (1990). On Japan's deepening crisis, see NY Times, July 30, 1998, pp. A1, A8.

The resilience of place-based, circumscribed economies plays an important role in determining the well-being of workers. Economic territorialization – meaning greater internal integration than global exposure – has the effect of binding together the fate of capital and labor within a single country or place, and differentiating it from those beyond the pale. The same is true of the less fully integrated but still distinctive economies of regional clusters such as Silicon Valley or Greater London or continental spheres like the EU and NAFTA. Within any bounded locale, the productivity of industry and the prevailing wage tend toward an average. This occurs partly because of the equalizing effects of capital flows and labor migration; but factor supply adjustments are not the whole story. Rather, both labor and management are caught up in a web of common circumstances that ties together their performance and productivity levels; these include, on the one hand, generalized basic levels of education, work discipline, technical competence and standards of living among managers and workers and, on the other hand, a thousand threads linking together the social division of labor from the highest to the lowest ends of performance and return. While high-grade, well educated, and experienced workers are the principle asset of any advanced industrial cluster, even those with low skills will be sucked into the vortex of activity and end up as links in the chain of collective labor and benefit from higher average wages than a similar worker laboring in a poor country or backward area.[16] So a worker's and a firm's location matters, on average; but what makes a place favorable to high performance and wages to begin with?

2. Production and productivity: the high road of capitalism

The principle condition for a high-wage, high-income labor force is a high-productivity economy. The 'secret' to the wealth of nations, as Adam Smith pointed out a while ago, is the cumulative achievements of industry over long periods of time. Where productivity is rising, wages should reflect this over time, as they did in post-war Europe and Japan, or have in the newly industrialized countries of our time, such as Singapore and Hong Kong. This effect is likely to be lagged by several years even in the best of circumstances, but it has held across a remarkable number of countries over the last two centuries.[17] Other considerations may enter into the actual wage rate, as we shall see, but for the moment let us focus on this central fact of modern economic growth.

A dominant myth – held by labor's enemies and friends alike – ignores this most basic fact of long term growth through the expansion of labor productivity in order to focus on labor cost. The myth is fundamentally geographic: it says that industrial location is driven by the cost of labor, hence employers will move away from high wage areas to places where lower wages prevail.[18] If this were true, however, all industry would have moved to Mississippi or Haiti long ago. On the contrary, most of the world's industry is found in the advanced capitalist countries (and within them in the principle urban centers, such as Chicago, Detroit or Los Angeles) where costs, including wages, are generally the highest, not the lowest. The Northern Triad nations of North America, Northern Europe and Japan still command over 70% of the world's output, employment, investment and income, and the ongoing complaint of most of the world is the difficulty of ever catching up. Those who have done so, like the Four Asian Tigers, are much studied, discussed and emulated today. A global economy is still a geographically concentrated economy.[19]

Behind this myth lies the whole edifice of conventional economics, which says that capitalists make optimizing calculations based on market prices under conditions of perfect competition and constant returns; thus the chief dynamic of production is the drive to minimize costs, including those of hiring workers. Neo-classical theory is fundamentally unable to cope with the central fact of modernization and the unending industrial revolution unleashed by capitalism: technical progress in products and production methods. After Marx, no economist grasped this fact until Joseph Schumpeter, and even he was marginalized by the discipline for being too much the 'bourgeois Marx'.[20] By the 1950s economic historians had blown the empirical lid off the neo-classical idea of growth via capital deepening alone, yet technological change and increasing returns to scale have only become legitimate topics for mainstream theorists in the last decade. Even so, the leading proponent of the New Growth Theory, Paul Romer, can still claim naively that US technical lead-

[16] Hammermesh (1975). Freeman (1994) estimates, for example, that 80% of the variance in wages between Mexico and the US is due to differences in the skill mix (productivity) and purchasing power (standard of living). This will be limited, of course, by differentiation at lower geographic scales.

[17] Joan Robinson (1962) and Kuznets (1966).

[18] Greider (1996) falls prey to this error, for example.

[19] For a review of the evidence on uneven development and a critique of conventional location theory, see Storper and Walker (1989). For the debates over 'backwardness' and catch-up see Amsden (1989) and Wade (1990).

[20] Marx (1863) is quite clear on the central role of technical change and rising productivity to the industrial revolution. Marx was, however, weak on product innovation compared to Schumpeter and his followers. Schumpeter (1939, 1942), Rosenberg (1982) and Freeman (1982).

ership is due to the scale of this country's internal market.[21]

Technical progress and rising productivity clear the path for the high-road of capitalist development – meaning steadily rising wages and incomes. The high wage economies of Europe have been growing more or less steadily for 100–200 years at compound rates of at least 1.5%. In the US it has been 2–3%. In the postwar Golden Age of prosperity, the advanced capitalist countries of the OECD grew at an average rate of 4–5%. Japan grew at astounding double-digit rates through the 1950s and 1960s. In all these countries, average incomes have risen dramatically as well over the long term. Despite the wreckage of World War II, wages and income per capita in Japan and Northern Europe (excluding Britain) are now higher than in the US.[22]

As a nation or region takes the high road to development and its industries expand, it takes on a distinctive geography as well. Industries (and not just manufactures) tend to grow in clumps, like bacteria on a nutrient medium. Firms and factories (and offices) cluster together in areas such as Birmingham, Chicago or Paris to enjoy agglomeration economies, or increasing returns brought about by spatial concentration. They share an experienced labor force within commuting distance, they buy and sell specialized inputs from each other, they are served by local financiers, attorneys and traders who are knowledgeable in the business, they spawn new firms and specialties as the collective enterprise expands, and they share knowledge of the 'industrial arts' of what they do. That knowledge is embodied in workers, managers, investors, councilors, machinery and production practices, and the collective accomplishment of all concerned is greater than the sum of the parts.[23] Moreover, as industries produce, they learn, and as they learn, they improve their products and methods; learning becomes central to the whole dynamic of industrialization, along with investment, competition, and advances in general education and science. This is a collective process which generates a higher productivity of social labor generally and belies the Liberal myth that productivity lies in the individual worker alone. Curiously, Alfred Marshall recognized all this without incorporating into his marginalist economics, the foundation for Anglo-American theory for the last century.[24]

This is a dynamic geo-industrial process – the production of industrial places – by which industrialization builds upon itself and, in so doing, builds up the locale of which it is a part. Workers are drawn in, new firms begun, new capital generated, and new machines put together on the spot. Industrial development is a 'bootstrapping' process to a large degree because of the revolutionary expansion of human capacities unleashed within industrial systems.[25] That is why virtually all industrialized nations are more prosperous than non-industrial ones, why there is a developed world and an underdeveloped world, why there are rich cities and poor countrysides. This tendency is only partially opposed by the 'spread effects' (spatial equalization effects) of trade, decentralization away from high cost locations, and the appearance of new centers of activity away from older cores.

Growth thus generates high employment and labor demand in the long run, and sufficient returns to pay good wages. A high wage economy is a product of development, not a barrier to it. Indeed, wages are a spur to growth, if they attract more high-quality labor, provide incentives for labor to contribute, expand the local market, and keep capitalists and workers on their technological toes. On the contrary, low wages, cheap labor and weak unions are frequently a sign of national or regional economic failure, forced by poor returns, low growth and pinch-penny employers. At the sectoral level, the high road means innovation to lower costs through mechanization and automation *and* innovation in products that find a market by virtue of what they do for the price (i.e., generate a consumer's surplus that can be converted into surplus profits); niche markets, barriers to entry and monopoly pricing can also create surplus profits, but are not the sole basis for them. A low-wage road to development may be expected in those industrial sectors (and segments) where technical change is difficult, skill is not exacting, and entry barriers are low, such as costume jewelry and light bulb manufacture. At the firm level, companies that perform well over time do so principally by keeping on top of technical change, product marketing, and organizational improvements. In short, labor's remuneration and competition between groups of workers are mediated by the performance of nations, regions, sectors and firms – and the capitalists who preside over these economic levels.

Of course, not every sector, workplace or job is at the upper end of the scale of productivity, innovation, skill

[21] Romer (1996), as noted by David and Wright (1997). See also Romer (1986). The 'discovery' of the unexplained increment in productivity due to technical change is associated with Robert Solow, but came out of the work of the National Bureau of Economic Research. Economic historians such as Rosenberg (1982), David (1975) and Landes (1970) remain out of the theoretical mainstream, if still legitimate scholars (unlike Marxists, naturally).

[22] Figures from Brenner (1998), see also Armstrong et al. (1991) and Glyn et al. (1992) on the postwar era and Dumenil and Lévy (1996) on the long term. Wage figures Wolman and Colamosca (1997, p. 80).

[23] Saxenian (1994), Freeman (1994), Storper and Salais (1997), Scott (1998) and Cooke and Morgan (1998).

[24] Marshall (1919) and David and Rosenbloom (1990). Alfred Weber discovered agglomeration economies at about the same time, but he was neglected by economists.

[25] Again, see Storper and Walker (1989).

and wages. Workers in such favored locations in the division of labor will fare better than those in stagnant sectors, backward factories, declining companies, and crummy jobs. Mostly forgotten in present-day paeans to high-tech and high skill, of information age and 'symbolic analysts' are the great swaths of ordinary jobs held by ordinary people without much claim to modernist fame.[26] Such breadth of occupations lies deep in the nature of the division of labor, and still operates with force within companies, factories, regions and national economies. The fully skilled national economy is even more unlikely than the oft-predicted, but little realized, fully robotic factory. So we must speak of averages in high-productivity, high wage economies – although the variance may shrink or expand (as it has done over the last 25 years in the US).

The high road of capitalism is the world of Paul Krugman and his neo-Ricardian fellows among the New Trade Theorists. The US and its workers are not threatened by global competition, they argue, because they remain relatively insulated from foreign trade and secure on the high road of increasing returns (productivity growth). For Krugman, only 10–20% of US manufacturing wage erosion is due to global trade, and this mostly at the low end. Moreover, for him the phenomenon of increasing returns is perfectly general, spreading from one country to another by virtue of specialization and increasing size of the global market, that is, through comparative advantage in trade. As new countries enter onto the high road, they jostle for position but do not displace those already lodged at the top of the industrial derby; indeed, everyone is better off for engaging in international trade. It is, in fact, the high-productivity, high-wage economies that engage in most of world trade and international competition. Here, argues Krugman, the playing field is relative level and growing larger all the time. In fact, the average wage of US trading partners in 1990 was 88% of the American wage. Cheap labor competition is a minor issue, in his view.[27]

Globalization is not a zero-sum game, according to trade theory. And why should it be? Why should economic growth in one country hurt another? Why shouldn't rising imports be matched by rising exports? To deny this is analogous to saying that California's expansion has come at the expense of Michigan's, when the US as a whole is richer for having both. Thus, Krugman is right, as far as he goes – which is to say an argument for the benefits of rising productivity in a world of robust profits, full employment, and a fair division of the spoils. Yet all has not been rosy in Michigan nor in California of late, so something may be wrong with Krugman's assumptions.

In fact, a lot can go wrong for workers in favored locations in the global economy; their high road can begin to erode. Three reasons for this are:

1. Productivity may not grow as expected due to failures of investment;
2. Competitors with rising productivity may whittle away the advantages of former leaders;
3. Gains in productivity may throw more workers onto the streets.

Let us consider the points in turn:

1. Average productivity growth may fall off, as it did in the US after 1973, declining to an average of just over 1% per annum (rising at last only in the 1990s). This would explain sluggish wage growth in the same period – an explanation favored by Krugman and Robert Lawrence.[28] Still, one would need to explain why productivity growth fell off as it did – an historically unprecedented slackening of performance by the American economy after two centuries (the long term trend has been close to 2.5%).

A possible account is the neo-Schumpeterian one that technical change was exhausted within the old Fordist paradigm. This is hard to swallow for two reasons. Productivity collapsed suddenly after 1973 to half its former rate of expansion. Why not a gradual diminution? And how could technical change slacken so much in an era in which computerization and the information revolution are being proclaimed from the mountain tops? In fact, these technologies have yielded a suitable rate of productivity improvement – but only in manufacturing. In the US, manufacturing productivity gains since 1979 have averaged around 3%, above historic trends. But in non-manufacturing, technology has been nearly stagnant. Evidently, the new technologies have not been adopted as widely as is often thought. Why not? Because of a low rate of capital investment.[29] But why low investment? There's a puzzle for Messrs. Krugman and Lawrence, which we cannot answer until we consider profit movements in the final section.

2. Competition from highly productive labor abroad can begin to pinch domestic companies and workers, as it did in the US. While the Myth of Cheap Labor holds that capital will seek the lowest wage workers regardless of their capabilities, what really matters is unit costs (wages times productivity). Overseas labor becomes a

[26] For example Reich (1991) and Castells (1996). Contrast with Krugman (1998, p. 27).

[27] Krugman (1996, p. 47). He softens this view a bit in Krugman (1998).

[28] Krugman and Lawrence (1993).

[29] Brenner (1998, pp. 4–5, 143, 238–245). The longer average annual productivity growth, 1973–1993, has been 2.4% in manufacturing versus 1.1% in non-manufacturing.

competitor – either for traded goods or plant relocation offshore – when it reaches relatively high levels of productivity. That is why the greatest challenge to US industry has come not from low-wage countries like Mexico and the Philippines but from First World trading partners such as Japan and Germany.

This high-productivity challenge began in the 1960s and had its most devastating effects in the 1980s. The American share of world exports started falling by the late 1950s and the trade deficit pushed the US into dollar devaluation by 1970, which spurred a short recovery. By 1980, however, Germany had passed the US in share of world exports (c. 16%) and the Japanese had unleashed a barrage of high quality, lower cost exports (peaking at 14% of world trade). Manufacturing is the part of the economy most exposed to international competition by virtue of the fungible nature of its products (today it makes up two-thirds of US trade, one-sixth of US domestic sales). Manufacturing imports hit almost 40% of US manufacturing output, and trade deficits peaked at over $150 billion per year before the dollar was devalued again through the Plaza Accord of 1985. US basic industries were clobbered and an era of deindustrialization set in train. During the recession of 1979–1982, output and employment in manufacturing fell by over 10%. Of the more than two million jobs lost, about one million can be attributed to imports.[30]

What competing countries had at the time was a killing combination of rising productive capabilities as they rushed to catch up with American levels of efficiency, and lagging wages – which had hit bottom in the ruins of World War II and had not yet attained the level of the US. As a result, unit costs were very favorable compared to American companies, which suffered accordingly. Productivity in German and Japanese manufacturing was 50% and 75% of US levels by 1970, while wages were only 60% and 25% of American workers, respectively, leaving unit costs at 80% and less than 50% of American industry. This was achieved through massive capital investment in the postwar era – over 10% in Germany and 15% in Japan – more than double the US rate.[31]

That the game of catch-up would come in part at the expense of the US is to be expected, since its absolute domination of world trade and manufacture after World War II was a unique circumstance. Complacency of American corporations made things worse as the world caught up with flaccid companies and oligopolistic sectors with bloated management structures, deadening control systems, declining records of innovation, high executive salaries, and so forth. One could attribute all this to the natural growing pains of the postwar world, but still see long run gains for all participants through the rebuilding of the global economy to new levels of output and prosperity. So why the persistence of competitive difficulties for American industry and American workers? After all, even though Japanese industrial wages are now 125% of US wages, it still runs a trading surplus with the US of around $50 billion per annum. Another effect is the permanently higher elasticity of demand for American labor (i.e., substitutability of US workers for high productivity foreign workers), especially in sectors facing global integration. There is still too much competition from too many productive companies and workers in the Northern Tier, let alone the Newly Industrialized Countries (NICs) of the Southern Tier.[32] Here's another puzzle for the New Trade theorists.

3. There is a supply effect when companies downsize, factories shut, or redundancies occur, releasing workers into the labor market. While this raises average productivity by removing the least efficient units, it creates a labor surplus that can depress wages. This happened in the US in the deep recessions of 1980–1982 and 1990–1992. Conversely, as companies successfully raise productivity to meet the challenges of competition, they may also shed workers, with the same effects on labor markets. Thus, even industrial success can have its cost for labor. Capitalist dynamics and competition, which demand recurrent innovation and restructuring to stay up with the pack, will undercut every fixed position in time. Put geographically, no factory, town or region, however successful in its times, can keep the wolf from the door indefinitely; the inconstant geography of capitalism has left many a vacant lot, deserted boomtown, and forgotten industrial center. In a Krugman world everyone would still be better off if the market adjusted smoothly to changes in competitiveness and divisions of labor. But, of course, it does not. In fact, the evidence is that US labor markets became less stable after 1980, making workers subject to a greater chance of being rendered unemployed, sometimes repeatedly.[33] This churning of the labor market came from the demand side. But why?

[30] Import and trade deficit figures from Wolman and Colamosca (1997, pp. 188, 190) (figure). Manufacturing shrinkage figures, Brenner (1998, p. 197). Import job loss estimate from Sachs and Shatz (1994). Britain lost 25% of its industrial jobs in the same period!

[31] Brenner (1998, pp. 106, 66, 79 and generally pp. 63–92).

[32] On US corporate complacency, see Schoenberger (1997), Wolman and Colamosca (1997). For comparative wages, ibid p. 80. On labor demand elasticity, Rodrik (1997, p. 17) citing unpublished studies.

[33] On the collapse of the 1980s, see Bluestone and Harrison (1982), Harrison and Bluestone (1988) and Rodwin and Sazanami (1989). On job loss in the early 1990s, see Farber (1996) (who estimates that it was greater than in the early 1980s). On geographic instability, see Storper and Walker (1989). On labor market churning, see Gottschalk and Moffitt (1994).

In short, rising productivity is central to long-term economic growth, which tends to concentrate in the most favored places in the global system. There, wages have climbed behind the advancing front of industrialization. Trade among favored nations ought to propel them forward not drag them down – all other things being equal. But productivity may fall off in one place and accelerate in another, cutting into wages in the former. The puzzle is why did productivity inducing investment slacken and excess competition persist over the last quarter century as never before?

3. The price of labor: supply and demand in labor markets

High productivity only means high wages if the working class has the historic capacity to extract a proportionate share of the social product and to keep the rate of surplus value (roughly, value added) from rising. Even if we assume that all is well with productivity and that output markets clear (no excess competition), it is by no means given that workers should enjoy the fruits of their labor. That all depends on the state of labor markets, and whether excess supply presses down on wages. Thus, wages may *not* track productivity gains everywhere or over long periods of time.

In treating the wage-profit split, we need to overcome the mythology of conventional economics that the operations of perfectly competitive, fluid markets assure that workers get what they deserve. The neo-classical orthodoxy asks us to believe that there is a seamless web connecting the marginal productivity of labor to the wage rate. If wages are low, it must be due to low productivity at the workplace (recall Krugman and Lawrence). Most neo-classical theorists go farther, holding that productivity inheres in each individual worker and his or her 'human capital'. Hence the widespread myth that wage stagnation resides with the undereducated worker who cannot keep up with a technologically progressive world economy, evident in the soft neoliberalism of Robert Reich, former Secretary of Labor. Another variant is that wage troubles are due to the inflexibility of workers (especially unionized workers) who stubbornly resist flexible work rules and reassignments that allow management to keep up with a changing world economy.[34]

But the price of labor is *not* determined simply by the productivity of the worker or the job. Labor (whether organized or not) must bargain for a piece of the economic pie from the corporations who take in revenues from the sale of their products at home or abroad. Labor's ability to bargain is strongly constrained, however, by the workings of the labor market, that is, by conditions of supply and demand. If demand outruns supply, generating a condition of labor scarcity, it gives workers greater leverage in bargaining (even more so if the sector enjoys surplus profits which can be converted into higher wages). If demand is slack or supply excessive, capitalists tend to gain the upper hand. A neo-classical economist would say that disequilibrium and rents are temporary states that should pass away as capital and labor adjust to changing circumstances in the long run. But one is wise to recall Keynes' famous retort that, "in the long run we are all dead." Marx went farther in arguing that capitalism creates its own labor surplus – an industrial reserve army – as a condition of accumulation, which constitutes a permanent drag on labor's bargaining power. Today, Keynes' and Marx's warnings merit a further look.[35]

In the Northern Tier, the bargaining position of workers might be diminished by a labor surplus coming from any of three directions:

1. workers in low-wage economies exporting cheaper goods;
2. immigrants arriving from poorer countries competing for domestic jobs;
3. surplus labor generated inside the country.

This is what most people mean by the specter of 'cheap labor'. It is the world depicted by many friends of labor, as well as by conservatives who hail the weakening of labor's 'monopoly' power by newfound competition. In the American case, commentators such as William Greider or William Wolman paint a stark picture of job-flight and overseas competition from low-wage nations from Thailand to Mexico. Others such as George Borjas and Allen Scott worry about the flooding of domestic labor markets by immigrant workers from the Southern Tier countries, especially Mexico. Still others see surplus labor coming from technical unemployment as automation and lean production are adopted to meet stringent overseas competition.[36] Let us consider each facet of cheap labor for the US.

1. The greatest peril of labor surplus, or cheap labor, appears to come from overseas competition in low wage countries. Historically, these nations presented little threat to the advanced capitalist world's advantages, including higher wages. They were usually far behind in technology, capital investment, work discipline and a whole set of institutions and practices needed for capitalist success. What raises the specter of 'cheap labor'

[34] Inflexibility was a significant issue in the big UAW strike against General Motors in 1998. For neo-classical distribution theory, see Varian (1996). On human capital, see Becker (1966) and Reich (1991).

[35] Marx (1863, chs. 10 and 25) and Storper and Walker (1989, ch. 7). The neo-classicals allow for bargaining in a restricted sense that surplus profits, which they call 'rents', allow for higher wages, or 'labor rents'. (Katz and Summers, 1989; Blanchflower et al., 1996).

[36] Greider (1996), Wolman and Colamosca (1997), Scott (1996), Belman and Lee (1996) and Krugman (1998).

today is the challenge from an expanding set of NICs with rapidly improving technologies and labor forces, especially in Southeast Asia and Latin America. This might be called the Third Wave of postwar global development, the industrialization of an ever-wider circle of nations beyond the Northern Triad. It is an extension of the high-productivity competition discussed above, but with a greater lag between rates of growth of productivity and wages.

What has workers in the US worried is not the mythic Mexican 'peon' or Chinese 'coolie' toiling for pennies in sweatshops, but the discovery of new Mexican, Indonesian or Malaysian worker toiling in factories with productivity levels equal to domestic plants, but earning wages one-tenth of American levels (e.g., the $85 average in Mexican maquiladoras). This we can call the 'Shaiken effect', after the influential work of Harley Shaiken on automobile plants in northern Mexico.[37] A crucial fact in the Mexican case is that wages have fallen dramatically along the border (30% 1982–1994, another 30% 1994–1998) while productivity has continued to rise. It is an exemplary case of divergence between productivity of labor and return to labor – a 'short run' adjustment problem lasting twenty years and sure to last another generation under the best of conditions. Both Mexican and American workers, argues Shaiken, are put in jeopardy by the ongoing integration of the two national economies under NAFTA.[38]

An assessment of the global challenge from the Shaiken Effect turns on how much of current US foreign trade is with the Southeast Asian NICs and Mexico, how big is the (merchandise) trade deficit with those countries, and rates of investment. By 1990, East Asia accounted for 13% of world exports, the same as Germany and more than either Japan (9%) or the US (12%). Of the total US trade deficit of $132 billion in 1993, the Asian NICs, Mexico and Brazil accounted for $23 billion (compared to a $7 billion surplus in 1980). These figures were rising fast in the 1990s until the Asian crisis struck. By 1995 the US trade deficit was up to $180 billion and low wage country trade had, by one estimate, reached 20% of imported manufactured goods to the US and Europe and a striking 33% to Japan; another estimate puts the low-wage country trade deficit at $55 billion in 1995. Meanwhile, maquiladora employment increased from 500 000 to over 1 000 000 between 1994 and 1998, for example, and Mexico now runs a trade surplus with the US (ca. $16 billion in 1998). The reason? Internal savings and investment in East Asia were running at double the rates of North America and Europe, while net capital flows to the whole Southern Tier reached $110 billion by 1993, over half the rate of foreign direct investment in the Northern Triad itself. (Krugman believes East Asian growth has come from 'forced-march industrialization' reminiscent of the Soviet Union, but this overlooks the stimulative effect of the world's fastest rate of investment in the 1990s – with one-quarter of global output, the region was making two-thirds of the world's investments in manufacturing).[39]

China looms even larger than the New Wave NICs. The US trade deficit with China was an astounding $57 billion in 1998. Investment in China 1991–1995 was $120 billion (compared to foreign investment in the US of $200 billion). China might be the ultimate cheap labor country of the world, given its vast population, low income level, and tightly controlled politics. China has experienced a phenomenal expansion of its industrial base, with growth rates of over 10%, but still has many workshops competing by means of sweated labor (as do the Southeast Asia NICs, as well).[40] With a GDP less than that of California, it will take a long time for China to enter the first rank of industrial nations and even longer for its workers' incomes to approach First World levels.

Krugman tries to mask the impact of low-wage competition abroad by saying that in 1990 imports from low-wage countries (below one-half US wages) were only 2.2% of US GDP (about the same as in 1960); but the share of *trade* not output also counts. Most studies show a substantial loss of US manufacturing jobs to imports, and a lesser effect on wages. Losses are skewed toward the lower segments of unskilled work and low-wage manufacturing industries, like textiles. After an exhaustive survey, Cline estimates that globalization was responsible for about 20% of the growth of wage inequality in the 1980s.[41]

[37] Shaiken (1990, 1994). Average productivity in Mexico is, of course, much lower than in the capital-intensive maquilas, but it is the productivity in exporting plants that counts. Reliable data is lacking.

[38] Shaiken (1994) and Orme (1996). This is true whether the competition comes from foreign companies or US-owned plants abroad. While the latter are the majority in the case of Mexican maquilas, some exporting countries such as Korea and Taiwan have developed with relatively little foreign direct investment.

[39] 1990 and 1993 figures from Belman and Lee (1996) and Brenner (1998); 1995 figures from Greider (1996, p. 202), Glyn (1997) and Wolman and Colamosca (1997, p. 190); maquila figures from Harley Shaiken, personal communication; Asian investment from Wade and Veneroso (1998), FDI from Wolman and Colamosca (1997, p. 25). cf. Krugman (1996, ch. 11.)

[40] Figures from US Census Bureau, Foreign Trade Division. As Krugman argues, however, China's exports go mostly to Hong Kong, with some reexport, greatly inflating the trade figures, (Krugman, 1998, pp. 87–97). On Taiwanese and Hong Kong investments in Southern China and Chinese factory conditions see Hsing (1998).

[41] Krugman (1996, p. 47), and Cline (1997, p. xx.). Howes and Markusen (1993, p. 26) give figures for low-wage imports of 2.6% of US, 1.2% of Japanese and 1.7% of European GDP in 1991. Key studies are Katz and Summers (1989) and Sachs and Shatz (1994). For reviews, Belman and Lee (1996), Collins (1996) and Cline (1997). It is curious that in the face of the growing chasm between rich and poor since 1980 that so much attention has been given in the trade literature on the split between skilled and unskilled labor, a much smaller divide.

2. The second source of cheap labor is immigration. Hiring lower-wage immigrants can function as a simpler alternative to offshoring factories. Why go abroad when the world is beating a path to your factory gate? The substitution of immigrant labor for US-born labor has occurred in many American workplaces and industries. But to what effect? We know that millions of new entrants came into the US after the immigration laws were relaxed in 1965. What began as a trickle in the 1960s surged in the next decade and peaked in a great wave in the late 1980s. But did this adversely affect American workers? That is not easily answered, and we should not be ready to damn immigrants. Their arrival can be correlated with almost any significant social change over the last quarter-century, but that does not necessarily make them causal agents in any of it.

Immigration is driven, above all, by economic demand for labor. The clearest indication is the way migration responds to geographic differences in job creation and to long waves of business activity. Major immigration cycles are triggered by upswings in accumulation at poles of attraction and peter out when growth in those places declines. California was the largest recipient of immigration to the US in our time because it was the greatest job generator, and the rising curve of migrants roughly tracked the curve of job creation. This close relation between labor demand and supply of in-migrants has been true over a long a succession of mass migrations to the state following the Gold Rush. Every wave of in-migration corresponds to an epochal boom in the state's development. In fact, the migration of the last quarter century was no greater in mass than that of the previous quarter-century, the great postwar flood; the main difference was that the first group were largely US-born and the latter foreign-born. Immigration finally overran demand between about 1988 and 1991, as the economy collapsed, then fell in response to a sharp decline in jobs.[42]

There is nothing to the reactionary claim of a labor glut because the world's poor are flooding our shores in a mad scramble to escape their misery. With few exceptions, the segment of emigrants from any poor country is quite small. The exception is mass displacement due to warfare, as in El Salvador in the 1980s, but such political refugees made up less than 10% of immigrants to the US in 1990. Altogether, international migrants are on the order of 5% of the global labor force, and most of these move within the Third World.[43] In the US, immigrants constitute less than 5% of the labor force; it is very hard to see how this highly mobile margin could bring down wages and employment rates so severely as has occurred. If immigrants are to blame, why did average wages continue to rise through the much larger influx to the US in the early 20th century? Why is unemployment higher in the rural confines of Northern California, where the populace is largely white, than in Southern California? Why is European unemployment double that of the US in the 1990s, when immigration restrictions have been more draconian there? [44]

The job competition between foreign-born and US-born workers is less than it might seem, in any case. While immigrants are often portrayed as poverty stricken, they come with a whole range of skills, from medical doctors to engineers. The modal immigrant is not a Mexican farm worker. Different skill groups (often of different national origins) compete with quite different segments of the domestic labor force: Mexicans with African-American janitors, Salvadorans with Japanese gardeners, Iranis with Jewish realtors, French engineers with Berkeley-trained Chinese-Americans, and so forth. It is impossible to make a simple claim about immigrants glutting one big labor market and dragging everyone's wages down. In many cases surplus immigrants glut segments already occupied by their countryfolk who arrived earlier. Conversely, skilled immigrants are the lifeblood of high technology in places like California, which is why Silicon Valley employers have fought vigorously for exemptions to bring in more foreign engineers – while unskilled Salvadorans hang out on street corners waiting for day jobs.[45]

Why aren't immigrants a blessing? This is the same puzzle that faced us in terms of international trade: why is the labor market a zero sum game? If labor demand is sufficient, immigrants ought to add to the productive labor force and to the mass of surplus value (profits) in the economy. They also represent additional consumers. Did the Irish of the 1840s and 1850s ruin Britain and the US? Nativists arguments of the day are now forgotten. Mass immigration at the end of the 19th century did not keep the US from becoming the leading industrial power. And it corresponded to a rise in labor militancy not a decline up to World War I. Conversely, the cutoff of immigration in 1923 came *after* the historic defeat of the unions and radical parties after World War I, and

[42] On migration and labor demand in general, see Piore (1979). On immigration cycles see Thomas (1974). On california migration, see Gordon (1954) and Walker and Lizárraga (1997).

[43] Low-end wages did sag in the early 1900s but not average wages. On global migration and national barriers, see Harris (1996).

[44] The US has always created jobs faster than Europe. This is not a product of recent policy but of the long-standing difference in development paths and demographics – the US has long had a higher birth rate, higher immigration rate, and more flexible labor markets.

[45] Wright et al. (1997), Waldinger and Bozorgmehr (1997), Davis (1998, ch. 6) and Kotkin and Friedman (1998). Even George Borjas, a leading critic of immigration, admits that immigration does not increase the effective supply of less educated workers, but foreign trade does. (Borjas and Freeman, 1992; Belman and Lee, 1996).

was followed by a shrinkage of the wage-share of national income in the 1920s.[46] Something has 'queered the pitch' in the international economy, but it is not global labor migration.

3. In a relatively self-contained economy such as the US, the biggest source of surplus labor and cheap labor is still internal. This is often overlooked with all the fuss over globalization. Capital has a lot of wiggle-room geographically and temporally within the confines of the world's biggest unified free-trade zone and uses it to good effect.

The US has a huge reservoir of labor and of low wage regions outside the main urban centers and prosperous coastal areas. It is easy for mobile capital to find cheaper labor at the internal peripheries of the economy. Silicon Valley electronics firms have dispersed their operations all over the American West for the last 30 years. Auto firms (including the Japanese) have been clever at placing their newest plants along the rural fringes of the lower Midwest-upper South. German investors love the Carolinas, with their lack of union traditions, as do the chicken and hog processors who have moved down from Delaware or Iowa. Indeed, the whole of American industrial geography has tilted toward the Sunbelt for decades, where unions are scarce and wages lower; this became a *cause-célèbre* in the 1970s before anyone worried about immigrants or globalization. It has not resulted in a simple leveling up of wages, as neo-classical theorists hold, but more like a leveling down.[47] Similarly, industry can draw on internal pools of surplus labor without going outside the cities: it only needs to employ women, young people, and minorities not previously fully part of the labor force. This has been the strategy of back offices, fast-food franchises, and big box retailers, for example.[48]

In a period of slow and erratic accumulation, furthermore, the US economy has been unable to sustain a high level of overall labor demand, despite a great deal of palaver about the "Great American Jobs Machine." The unemployment rate has run at over 5% for the last twenty five year stretch, twice the average of the preceding quarter-century (and double that if discouraged and part-time workers are included). Unemployment peaked at around 10% in each of the recessions of the period, in the early 1970s, 1980s and 1990s. This has been true in every region of the US, including the fastest growing such as California and Florida and those with little immigration, such as the upper Midwest. This raises questions as to why recessions have been so severe and why employment hasn't rebounded during upswings to absorb surplus labor. The answers must wait until we consider profit movements.

Then there are the dynamics of technological improvement unleashed by capitalism (this occurs chiefly because of the search for profits and the pressure of competition, but is likely to be greater where wages are high and labor markets tight). Automation and lean production have greatly reduced the labourforce in American manufacturing in recent years while output per worker has climbed, but the firestorm of technical change sweeps across many fronts, including the opening up of new product markets, the birth of new firms, and the shrinkage of once-leading sectors. The advancing front of industrialization sweeps factories, jobs, companies, and workers into the dustbin of history with disturbing regularity. We live in a world of unceasing change, of unyielding modernity ("all that is solid melts into air"), or what is today called "restructuring", and it is a highly geographic process. Jobs lost in one place and labor force are unlikely to be replaced in the same place and by the same workers.[49]

This perennial upheaval takes its toll on the working class. Militancy, unions, and bargaining strength have been deeply undermined by sectoral and geographic shifts. Steel is not the mass employer of thirty years ago, fast-food outlets are – but the latter are almost entirely beyond the reach of unions. (Such shifts are not necessarily political in their conception by capitalists, who may be introducing the latest technology for purely economic reasons). Neo-liberals argue that workers can and must adjust to industrial change by retraining, geographic mobility, and general 'flexibility', hence the Reagan Administration's call for laid-off auto workers in Detroit to migrate to oil-rich Houston in the early Eighties (not good advice, as it turned out, given the subsequent bust in Texas). But workers' ability to adjust usually lags behind the pace of restructuring, which shakes the house of labor so fiercely that workers' organizations break apart and the high wage spots slide down to a level nearer the swamps of the poor and disorganized.[50]

[46] On labor in the 1920s, see Devine (1983), Davis (1986) and Moody (1988).

[47] DeVyver (1951), Borts (1960) and Perry and Watkins (1977). On the labor regime of the South, see Wright (1986) and Griffith (1993).

[48] Hanson and Pratt (1995) and Nelson (1984).

[49] On productivity increases in manufacturing, see above at footnote 29. On restructuring and industrial geography, see Massey (1979), Bluestone and Harrision (1982) and Storper and Walker (1989).

[50] Storper and Walker (1989). Reaganite pronouncements recall pleas in the 1960s for black workers to migrate to the suburbs or Thatcherite calls to British workers to migrate from the depressed North to London. An older body of work on unemployment among blacks and inner city residents argued that labor demand, job creation and willingness to hire minorities were the real solution to the labor surplus, not migration. (Harrison, 1974). The same point was made with regard to the failure of 'backward regions' in Britain to develop in the absense of capital investment and the creation of good jobs, (Massey, 1979).

Another facet of industrial change is a shift in the kinds of jobs on offer to a greater proportion of 'contingent work'. The Great American Jobs machine has meant a lot of jobs for part-timers, short-timers and subcontractors – the bulk at poor wages. A striking feature is that this jobs growth has occurred almost entirely in the so-called 'service sectors'. Manufacturing has shrunken as a proportion of aggregate employment from 25% in 1960 to 22% in 1979 to 16% in 1996 (absolute numbers peaked in 1979).[51] This is not simply a product of technical change to an Information Society, however. Industrial exporters were forced to become 'lean and mean' by shedding workers, reorganizing work and supply chains, investing in new machines and raising labor productivity. Because the American market share in tradables has been capped by global competition, manufacturing improvement has been largely jobless growth. By contrast, non-manufacturing sectors such as retailing and medical care are locally based and suffer little from foreign competition. They have been able to keep profits up by raising prices and lowering wages, while still adding willy-nilly to their labor force.

The phenomenon of deterioration in wages and job quality with employment growth is much larger quantitatively than either immigration or maquiladoras (service jobs have increased by the tens of millions over the last two decades). It is independent of labor supply or wage rates in two ways. First, employers have wanted to create contingent work (part-time, short-term, and contract) for reasons of flexibility and performance. Indeed, in the high skilled segments of business consulting, technical services, and design, performance is the dominant factor as US companies strive to meet higher standards of management and technology, and the wages for these jobs have remained high even as they became contingent.[52] Second, non-manufacturing employers have not deigned to invest in equipment to raise labor productivity, despite higher average profits than manufacturing. The Great Jobs Machine has meant jobs *without* machines.[53] On the other hand, as basic industry shed jobs and workers, it generated a mass of surplus labor available to the service sectors, which picked up these workers (or their wives and children) at bargain prices. Because workers have been hard up for jobs and income, they have been willing to take part-time and short-term work, often for lower wages and no benefits. This is a sign of labor's weakness and oversupply.

In sum, the specter of cheap labor competition is real – though apparently a good deal less devastating than the impact of Japanese and European competition. Low-wage imports from the third wave NICs only became substantial by the mid-1990s, when US unemployment rates actually fell and wages began to inch up (but not by much). Low-wage immigrants peaked in the late 1980s and were suddenly conspicuous by their unemployment in the recession of 1989–1992; but evidence for a major effect on domestic wages is scant, apart from the symbiotic effect their arrival has had on the capitalists' strategy of creating low-wage, contingent jobs. Finally, the massive growth of second-rate jobs in the service occupations bears little relation to import competition and a tangential one to immigration; it would seem to have more to do with the massive release of workers from manufacturing that began in the 1970s and low rates of productivity growth (and investment) in the service-sectors. The most striking thing is that the long-term decline in US wages began in the 1960s, well before any of the global cheap labor factors kicked in and before anyone had dreamed of raising the specter of mass Chinese imports, Mexican immigration, the Sunbelt shift, or deindustrialization. Similarly, unionization and working class power has been declining steadily since the 1950s, while unemployment jumped up to new levels after 1973.[54] So cheap labor is not a very satisfactory explanation for the recent plight of American workers.

How, then, do we account for the paradox of a system that has been able to absorb immigrants, technical change, westward expansion, and sectoral shifts for most of its history, but has failed conspicuously to do so over the last bleak quarter century? Let us now look to the dynamics of class struggle or capital accumulation rather than labor productivity and labor supply.

4. The politics of labor power: life under neo-liberalism

In the end, economics is not enough and a politics of labor – our fourth P-factor – enters into the equation of wage determination. The classes maneuver and struggle through administrative, legal, and even violent means, most of which are mediated by the state. This is a barebones definition of politics, even of labor-politics, but it will suffice for present purposes. Any notion of politics stands in opposition to the economistic myth that the condition of labor is determined solely by the impartial hand of global competition and the operation of labor markets. The surprising thing about this counsel of despair is that so many unionists and friends of labor buy

[51] Brenner (1998, pp. 3–5, 204–207).

[52] Moody (1997) and Benner and Malloy (1998).

[53] Brenner (1998, p. 205). These divergent paths of manufacturing and non-manufacturing are often taken as natural characteristics of 'goods' versus 'services' production, but they did not exist before 1973, when manufacturing still created jobs and service providers still invested and raised productivity at a rate comparable to goods providers.

[54] On the decline of wages beginning in the 1960s, see Brenner (1998, pp. 96–111). On the mild US recovery of the Nineties, see Brenner (1998, pp. 248–250).

into it. The business class love it, of course, because it hides their active role in suppressing wages and increasing their profits and rents. It is the line espoused from the California State Chamber of Commerce to the French *patronate*. It is the logic behind the "structural adjustment" policies of the International Monetary Fund (IMF). It is the bankers' faith behind the Federal Reserve's rush to tighten interest rates whenever it detects a hint of "inflationary wage push". It is the world of neo-liberalism we inhabit.[55]

The prevailing wage rate in any country or region is by no means determined automatically by the state of productivity, global markets and competition. The distribution of the social product (the rate of surplus value) depends on the bargaining power of labor and capital. There is room to maneuver on both sides in any company or place in the global economy, and the victories of the contending classes will leave workers better or worse off at the end of the day. Thus, the downward pressure on wages and labor conditions over the last quarter century in the US, for example, is more than a reflection of greater competition, American decline, or glutted labor markets (or even declining profits, see below). It is in part the result of a concerted strategy of capital, government, and the political Right to roll back the gains of made by labor in the middle of the 20th century.[56] The myth of neo-liberalism is that it is a policy to free capital from the shackles of government interference so it can compete more nimbly in global markets; the fact is that it is a strategy to liberate capital from the restraints put on it by the labor movement and social regulation. We talk all the time about competitive advantage and cheap labor competition, but who has the courage to speak about the politics of labor? The term 'class struggle' is today considered a sad relict of a communist system safely dead and buried.

I shall, in contrast, brazenly speak of something which may be called, in the old Hegelian language that is Greek to the neo-liberal and post-Marxist, a 'world historical defeat of labor'. Workers have been under attack all around the world, as the ideology and practice of neo-liberalism was exported by the Thatcher and Reagan regimes. The IMF has been pushing draconian austerity policies on governments deemed too sympathetic to their people, while born-again neo-liberals like Carlos Salinas Gotari of Mexico and Fernando Enrique Cardoso of Brazil have eagerly applied the nostrum to their own countries. The neo-liberal package of reforms includes the weakening of labor protections, the removal of social subsidies to the poor, lower taxes on the rich, selling off state companies and assets, deregulation of financial markets, re-regulation of intellectual property rights, reductions of tariffs and quotas on international trade, and so forth.[57]

In the US, a long corporate offensive against labor and the rightward shift of politics since Reagan have taken a dramatic toll.[58] Managerial and government aggression have contributed to a long steady decline in real wages, job quality and job security since at least 1975. Key moments in the attack on the working class can be easily flagged, beginning with the breaking of the PATCO strike in 1981. This was followed by a weakening of the National Labor Relations Act, mostly through appointments to the board and to the courts. Along with this came a relaxation of child labor laws, safety regulations, and fire codes. The minimum wage languished, falling to half of its previous real level. Simultaneously, the rug was being pulled out from under the working poor by the reduction of social benefits paid out of federal, state and local funds.[59]

The devastation of the mass production centers of the industrial heartland by the depression of the early 1980s and foreign competition did more than throw millions of workers onto the labor market, it badly weakened the unions in the sectors which the CIO had made the centerpiece of American unionism: autoworkers, steelworkers, rubber workers and the like. And as the economy recovered new growth sectors from high tech to fast food were unorganized. This not only reduced the percentage of unionized workers in the country but took away the leadership in national wage (pattern) bargaining, which had rested with the heartland unions since the 1940s.[60] At the same time as the unions were shrinking, companies became increasingly adept at using the threat of plant closure, relocation and global competition to extract concessions from workers. While corporations often had no intention of going anywhere, their threats were backed up by the evidence of massive foreign direct investment and some dramatic instances

[55] Try to find any mention of unions or labor-bargaining in works such as Krugman (1998) or Reich (1991). In such neo-classical works, wages are determined by the marginal value product of labor, not bargaining. But compare Rodrik (1997).

[56] The historic victories of labor during the 1930s and 40s in the US, and in the postwar era in Europe, were themselves the consequence of the debacle of capital in the Great Depression and the internecine warfare of the Second World War, Mandel (1975). Capital set its sights on rollback by the end of the war, won such key victories as the Taft-Harley Act of 1946 in the US, and first succeeded in holding the line on the productivity-chasing wage contracts of Big Labor in the early 1960s, Davis (1986), Moody (1988) and Brenner (1998). For a comparison of the US and European bargaining systems, see Freeman (1994).

[57] Biersteker (1996), Moody (1997) and Halimi (1998).

[58] Davis (1986), Block et al. (1987), Harrison and Bluestone (1988), Friedman (1988), Phillips (1993), Walker (1995) and Gordon (1996).

[59] I have ignored the crucial issue of the social wages and government benefits to simplify the argument. On this, see Gans (1995), Rodrik (1997) and Moody (1997).

[60] Kochan et al. (1986), Moody (1988), Storper and Walker (1989), Borjas and Ramey (1995) and Belman and Lee (1996).

of moving factories abroad. Such relocation is highly political because foreign sites come with a very different and often lower standard of worker bargaining rights, protections and so forth, and the race-to-the-bottom has engendered deregulation as well as lower wages.[61]

Less visible but equally corrosive in the long run have been the innumerable corporate subversions of workers' ability to organize and engage in collective bargaining. A new breed of management consultant and labor lawyer came into prominence to lead the corporate charge for union decertifications, take-aways of benefits, dual wage structures, no-strike contracts, lock-outs, replacement workers, etc. Another kind of new manager made it his specialty to 'downsize' supposedly overstaffed companies to please the wizards of Wall Street looking for high dividends and stock prices.[62]

While all this was going on, the capitalist class rewarded itself with ample tax cuts of all kinds through the Tax Revolt – on property, capital gains, income, inheritance, corporate profits and so forth. As tax rates on capital have fallen, those on labor have continued to rise. Simultaneously, returns on financial assets (held chiefly by the rich) were raised through the elimination of single-digit limits on interest rates, removal of rent controls, insurance of large denomination bank deposits, fire-sale purchases of public companies, and so on. This expanded the bulging ranks of millionaires even farther (the number of net worth millionaires doubled between 1990 and 1995).

The financiers have had the much more money to play with and better prospects of making money breed money without the bother of investing in manufacturing. Global financial assets were $35 trillion in 1992, or twice the GDP of the entire Northern Tier. Meanwhile, financial flows have gone from 10% to 95% speculative over the last thirty years. And the wreckage of financial speculation is usually laid at the feet of ordinary people: the estimated cost for saving Mexico's banking system is $60 billion, or two year's income for the bottom half of that society.[63]

Capitalist revanchism taken to extremes of deregulation and labor repression is a low road to capitalist development. The low road rests on cheap labor, cost cutting and a repressive state to keep labor under control. How does a country get on the low road? In the Third World context, where underdevelopment, backwardness and industrial failure have been common, the question has been a pressing one. Few in the advanced industrial countries have bothered to consider the variety of capitalisms, sure that there was only one capitalism with a smiling Social Democratic face. But this ignores the reality of place and the diversity of capitalist social forms and economic arrangements. The low road has made excellent political and economic sense to the ruling classes of many a country, most in the Southern Tier, where the peasantry is under the thumb of landowners, the working class is disorganized, or dictatorial terror is a long-standing practice – and where the US and European colonialists have kept their thumb on popular revolt and national liberation.[64] Its long prevalence in places like the American South or Southwest, however, cannot be laid at the feet of dictators or imperialists, but to local histories of sharecropping, Dixiecrats, conquest, white supremacy, and Right to Work laws.[65] Those who have taken this path have, on occasion, done well exporting primary commodities and attracting low-wage manufacturing, as in the Caribbean today; but none has a record of growth, innovation and prosperity comparable to high road industrial regions such as the Rhineland, California, or Tuscany.

It is a fearful prospect to see how much of a turn the Northern Tier countries, and especially the US, have taken toward the low road under the goad of neo-liberal policy and a capitalist class aggressively rolling backs the gains of workers, organized labor, Social Democratic parties, Keynesian stimulation policies, and the social insurance of the welfare state. This is labor and class politics with a vengeance, and it has driven a sharp wedge between the rich and the poor, the Northern and Southern economies, and industrialization (productivity gains) and wages. One might well ask if capitalism itself can prosper for long under such a regime? So far the answer is no, despite appearances to the contrary, thanks to the rapid enrichment of the few in our times. We now turn to the overall performance of global capitalism, in all its fading lustre.

5. Profit and capital: the chills winds of globalization

The last determinant of wages – the rate of profit, our fifth P-factor – is the most important of all. But it is the least discussed, especially in polite company and more particularly among economists.[66] By rate of profit we

[61] Bluestone and Harrison (1982), Rodrik (1997), Greider (1996) and Moody (1997).

[62] On the dismantling of collective bargaining, see Mitchell (1985), Goldfield (1987) and Moody (1988). On downsizing, Doug Henwood, (1995, Left Business Observer, 75, p. 7).

[63] On wealth distribution, see Phillips (1990), Wolman and Colamosca (1997, ch. 8); figure on millionaires from Kotkin and Friedman (1998); on shift to labor taxes, Rodrik (1997, p. 65); on financial bloat Henwood (1997); estimate of speculative flows, Chomsky (1998); on Mexico, Greider (1997, ch. 12).

[64] Moore (1966), Frank (1968), Brenner (1977), Deyo (1979) and Halliday (1980) and Cumings (1998).

[65] Mandle (1978), Barrera (1979) and Griffith (1993).

[66] But see Sachs (1979). Trade theorists refer discretely to the growing elasticity of demand for goods with trade integration and the shrinking price-cost margin. See, e.g., Rodrik (1997, p. 17).

mean not just the share of income going to capitalists, but the rate of return – the ratio of surplus value to invested capital over time. It is that which motivates capitalists to hurl their money into production and circulation in order to make more money. The investment of money to make more money, or capital accumulation, is the goal of the system, for which growth in other dimensions – output, total value (income), productive capacity, employment, etc. – is simply the means to an end. Even David Ricardo acknowledged this. Accumulation is the main driving force of the world economy, along with its correlates, capital–capital competition and capital–labor exploitation. This is why it makes more sense to speak of 'the capitalist system' than 'the global market'. The greatest economic myth of all is that the market has as its principle purpose the service of human needs rather than the aggrandizement of capitalists and their corporations.[67]

Given the explosion of global investment and the collapse of Communism, capitalist triumphalism is in the air. Even among friends of labor, the mobility of capital is frequently held to be virtually infinite, and workers losers for it. The argument is that capital's global reach brings more working people into competition with each other, enlarges the global labor surplus and puts cheap labor in direct competition with expensive labor; this erodes wages in the Northern Tier (and even undermines rising wages in the older NICs by competition from the newer ones).[68] As we have seen, this sobering picture is by no means wrong. But it is misleading in so far as it partakes of the myth of capital's perfection and potency, and says nothing of capital's limits and contradictions. Geographers have been the first to resist this whitewash, by insisting that capital cannot be everywhere at once, ignore the assets of places, or move on a dime. Corporations are not omnipotent and often perplexed by change. Monetary flows are often speculative in the extreme and based on nothing more than collective madness. And capital's free-wheeling operations can impede its own further profit-making, both locally and globally.[69]

Profit is the variable missing from the equation for wages. In our discussion so far, it has reared its head only to be sidelined as long as our focus was on labor, not capital. Yet profit rates affect the other P-factors (productivity, price and politics) decisively. Profit is the *raison d'être* of capital and profit rates are the key economic influence on investment, and hence on rates of accumulation.[70] On the positive side, a high average profit rate, i.e., a good return on capital investment in industry, tends to improve productivity, wages and class peace. When profits fall, however, productivity tends to slump, wage demands to be blunted, and class struggles to break out. The logic of this is simple – and the evidence surprisingly strong that this is what has happened over the course of the last fifty years.

First the logic: when capitalists are earning a good return they normally reinvest briskly in industrial production, purchasing new machinery and building new plants. Improved techniques are embodied in new equipment and layouts, so productivity should rise (it also tends to rise as capacity utilization improves during an upswing). This depends, of course, on technical possibilities, good decisions, and practical experience; capital presses at the expanding industrial frontier but does not create it out of whole cloth. Still, investment is the prime mover in the adoption of new technologies. It is odd how much the literature on technical change these days glides over the role of investment in its obsession with networking and learning economies.[71] Second, where capital is doing well and investing in new plant and equipment, labor demand should be robust. With strong demand, labor is absorbed and wages should move upward as supply tightens. Cost-squeeze is a common occurrence in an era of prosperity, even though investment booms trigger supply responses, such as flows of migration, which counteract the development of shortages. This side of equation is sorely neglected by the prevailing focus on labor supply in the literature. Third, labor politics has less of an edge when profits are good and capitalists feel they can yield more in the way of wages and benefits without jeopardizing their rates of return. Tight labor markets tend to help unions organize, fill their coffers with dues, and make strikes more winnable (if capitalists feel the pinch of lost production in a robust market).

When profits go sour, the reverse will be true. Without adequate investment, productivity will not grow briskly. Without the effective demand for labor, labor markets go slack and wages stagnate. When capitalists feel the pinch of lower profits, they are likely to turn on workers and try gain by wage cuts what they cannot make through better sales. This is exactly what has happened over the last quarter century throughout the developed world, and particularly in the United States, which felt the profit pinch first and longest and whose industries and workers had the farthest to fall from their exhaulted position astride the globe in the immediate post-World War II era. Robert Brenner, in an exhaustive review of the evidence, calls the period of relatively poor growth "The Long Downturn".

[67] This is, of course, the classic view of Marx (1863). See also Harvey (1982).

[68] Greider (1996) and Wolman and Colamosca (1997).

[69] Harvey (1982), Schoenberger (1997), Leyshon and Thrift (1997) and Henwood (1997).

[70] Duménil and Lévy (1993).

[71] E.g., Saxenian (1994), Storper and Salais (1997) and Scott (1998).

Global profit rates on manufacturing fell by about half in the early 1970s, after a long run of good times in the postwar Golden Age. They stayed low into the 1990s, despite a modest rebound in the late 1980s. For the seven leading industrial countries, the rate of profit in manufacturing 1970–1990 was less than 40% of what it had been 1950–1970. The performance of the major economies reflects this decline and stagnation in profits. The global effect of lower profit rates was weaker performance in the key indicators of economic growth. For the OECD countries from 1973 to 1996, the rates of investment and output growth were approximately one-third to one-half the rates from 1950 to 1973. Productivity growth slackened in like degree and wage increases fell off in proportion. As one would expect, weakening capital accumulation caused a productivity slowdown and wage stagnation. Weaker profits have also brought a pattern of business cycles with upswings tainted by speculative booms and deep recessions plagued with financial crisis, as well as volatile flows of investment from one sector to another, one country to another – in desperate search for better returns.[72] This helps explain the churning of labor markets.

Profit and performance difficulties showed up earliest in the US (along with Britain). By the mid-1960s US profits were declining and trade deficits ballooning; the dollar began to weaken as payments flows grew more imbalanced. The profit decline cannot be attributed to rising wages cutting into the rate of surplus value, however, because wage demands were already weakening in the early 1960s – before the rate of profit began falling. While US workers tried to recover lost ground through a rash of strikes in the late 1960s, wages did not budge; meanwhile, German workers voluntarily held the line (improving German profits) and Japanese wages went up (but were easily accommodated by Japanese employers).[73] In 1970 the situation hit a crisis point, and the US triggered a worldwide recession by devaluing the dollar to correct its yawning deficits.

European and Japanese profits fell precipitously with the slump of 1973–1975. The US economy recovered but did not get back on the high road of investment and productivity gains. Instead, companies sought to raise their fallen profits through price increases, and inflation soared. The wolf came to the factory door in the early 1980s, when the Federal Reserve tightened the screws on inflation by raising interest rates. Meanwhile, Japan came roaring back with even better mass production methods and Europe continued to close the productivity gap; US manufacturing companies lost market share rapidly and could no longer raise prices to make up for it. US manufacturing was swept away in a firestorm of recession, bankruptcy, and global competition. The catastrophic bulge in unemployment threw the working class back on their heels, gravely weakening key unions and their allies in the Democratic Party, and allowed Reagan's neo-liberal policies to triumph – particularly since he sugar-coated them with liberal spending on the military that revived the economy.

American productivity fared better after 1985, but financial instability and a new recession intervened. Only in the 1990s did the US economy begin again to outperform its Northern Triad rivals. By that time, overheated Japan and Europe hit the swamp created by falling profits themselves and became mired in low-growth (and bad debts) throughout the decade. Worse for them, American fiscal policy had turned conservative in the wake of the federal budget deficits run up by Reagan's military Keynesianism, and the US was no longer inflating its demand to help promote global development. Workers have suffered throughout the advanced industrial countries, as a result. Even with a strong recovery, American firms are shedding workers at a rate faster than the early Eighties and wages continued to stagnate until the labor market finally tightened circa 1996.

Meanwhile, the NICs began their miraculous climb into the ranks of industrial competitors to the Northern Tier countries. At first the US welcomed the Four Tigers into the fold, leaving its markets relatively open and unprotected against their exports. But this added to the rising burden of trade deficits and manufacturing decline throughout the 1980s. The US tried to reverse its plight with the Plaza Accord of 1985, which devalued the dollar against the Japanese yen (tighter quotas on Japanese imports were also introduced). Japan's industries felt the pinch of higher costs and a reduced American market, and turned to Southeast Asia as an escape valve, investing huge amounts of capital in factories throughout the region. This threw gasoline on the growing fires of East Asian industrialization. American corporations sent great floods of capital abroad, as well, as in the case of Mexico, spurring the export sector there, as well. Not surprisingly, a vast surge of exports came issuing forth from the Third Wave NICs, and this time imports caused significant manufacturing jobs losses in Japan as well as the US.

Finally, the fallen rate of profit in manufacturing in the US and Japan led to a flight of capital out of productive investment and into other fields within both countries. In Japan the main outlet by the late 1980s was massive real estate speculation. In the US, the main vent has been the stock market, which has charged upward at a double-digit rate for over a decade – a figure quite out

[72] Brenner (1998). A surprising feature of the era is that virtually all indices of growth have been weaker in each successive recovery – the 1990s were not better than the 1980s, nor the 1980s better than the 1970s, contrary to much popular myth, Ibid. p. 5.

[73] Ibid. n. 53. Aggregate OECD profits fell by 25% 1965–1973. The chief cause was competition from rapidly expanding exports from Germany and Japan. Wages grew little, especially in the US.

of keeping with growth and profits (it is the most overvalued it has been in 120 years). Another response, as we've seen, has been the expansion of the service sectors. The reason? Because that is where the rate of profit held up best during the long downturn.[74]

The rate of profit and capital's failure to accumulate thus account for the main features of labor's plight in the United States. But why did profits fall? The proximate reason is the pressure of competition from foreign imports, which hit manufacturing hardest because hard goods are the most fungible, tradable parts of national output. The onrushing centers of industrialization – First Tier, then the Four Tigers and Third Wave NICs – were brought into a position to best American manufacturing in terms of unit costs, as we have noted. Nonetheless, competition is not a sufficient explanation. It might account for the US losing its huge advantage, but why would profit rates have declined only slighter later in the miracle economies of Japan and Germany? And why would Southeast Asia hit the skids so dramatically in 1997 after a decade of intense industrialization? Is it even cheaper labor in India and China? Or because the United States became competitive again? One circles around the problem but never lands. The puzzle of the zero-sum global game remains.

What we have seen, instead, is a frantic scramble by all parties to international trade to increase their share at the expense of everyone else. In the 1990s, the rate of growth of exports accelerated, as everyone desperately searched for new market share abroad. The ratio of growth of trade to growth of output hit a level twice that of any previous postwar decade. Is this due to a lack of global demand, in the Keynesian sense, as Greider and Glyn believe? In one sense, yes. A regime of world austerity ushered in the 1990s, led by Clinton-Gringrich budget balancing, German bankers astride the European currency union, and Japanese deflationary policies. This kept demand growing more slowly than at any time in the postwar period.[75] Yet austerity, for all its vices, was in part a response to excesses of deficit-spending in the 1980s (*not* those of the 1960s, but those spurred by the conservatives themselves, Reagan, Kohl and Takeshita); central bankers Meino and Greenspan were repeating the monetary purgatives applied by Volcker a decade earlier.

Nonetheless, the real drag on the world economy is overcapacity – too many factories – rather than too few customers. There has been a sustained worldwide glut of capital stocks in basic industry. The cause is two-sided. New factories have been added and productivity improvements made without regard for the profitability of already existing capitals, and this investment has proceeded extremely rapidly (double-digit rates) at the expanding edges (and deepening centers) of the world system. Meanwhile, factories made redundant or obsolete by the new have not been closed fast enough to compensate for the gains elsewhere. That is, excess capital could not be, or would not be, written off in declining sectors, firms and countries as fast as new capital stocks entered the world market. Or, to put it in neo-classical terms, there has been a failure of adjustment – rate of entry exceeded rate of exit. But unlike the neo-classical story of market response and a tendency to equilibrium, there has been a long, persistent state of disequilibrium.

That disequilibrium made itself known with a bang once more in the Asian meltdown of 1997–1998, which is still working its way back through the US and Europe. (IMF austerity measures have made the depression worse, but did not cause it). American companies, especially California ones, have began a new round of layoffs and poor quarterly reports, and the great stock run-up is careening over the mountain top into a recession. A US slowdown will reverberate through Europe, stanching its mild revival.

But why the turnaround in American fortunes up to now? This might appear to contravene the gloomy picture of low profits. And, indeed, US rates of profit improved in the late 1980s and 1990s, for good reasons. First, a great deal of industrial capital was written off the landscape during the recessions. Second, US companies restructured: new technology and lean production methods were brought on board as investment in new capital picked up; so productivity improved. Third, currency devaluation after 1985 helped vis-a-vis Japan (but helped send the latter's economy careening downward). Last, but not least, business took its profit out of the hide of the workers: wages went nowhere while the economy picked up steam and productivity rebounded, hence a higher rate of surplus value. In sum, a smaller capital base and a higher rate of surplus value means a higher rate of profit. This, in turn, means stronger investment, higher growth rates for productivity, job growth and a booming stock market – but little improvement in wages because of the long historic defeat of the working class in America.

6. Conclusion

It is a curious thing that in the debates over globalization and the fate of labor, argument swirls around the failures of the working class and the successes of capital. Almost never is it said that stagnating wages in the advanced capitalist countries are a product of capital's failure to cope with its own contradictions. Geographi-

[74] Valuation figure from Doug Henwood's Left Business Observer (84, July 21, 1998, p. 6). Relative profits from Brenner (1998, p. 186).

[75] Greider (1996), Glyn (1997, 1998), Tabb (1995) and Brenner (1998).

cally, it is always somewhere else that is doing better, some other workers who have learned to work hard, take little, and shut their mouths. Yet the profitability problems of capital are quite general, and one day's success story is the next day's basket case. Low wage industrialization is in a shambles in Southeast Asia and Mexico, Japan is a staggering under its debt load, and Europe still has double-digit unemployment. So where is the unalloyed success story?

But if slack accumulation can plague any and every part of the capitalist system, *competition* is less constraining on American firms and workers than one is led to believe by the sirens of globalism, cheap labor, and beggar-thy-neighbor. The US is still one of the most favored places on earth, its competitive advantages many, and its internal markets gigantic. American capital has learned much from the competitive pressures of recent years, and the leading regions and sectors of the US can muster an impressive host of labor skills, scientific research, technologies, financial resources, management systems and so forth. The most foolish thing US industry can do is to throw away a century of development and try to compete with Malaysia and Guatemala. Unfortunately, this is the low road down which current politics are taking us.

Repression of the working people has moved full speed ahead, with falling union membership and family incomes being echoed by overcrowded jails and armies of the homeless. It might be argued that the ruling class has adopted a rational neo-liberal agenda that gives a capital a freer hand to meet the challenges of the new era. I think this is wrong; there is little even of *capitalist* rationality in the reactionary politics that now hold sway over the world. Neo-liberalism may yet kill the golden goose with its wrong-headed policies of austerity, neglect of education and demoralization of the workers.

If the capitalist class is lucky, it will be able to find a middle way between high wage growth and low wage-low road industrialization – or what we might call the divided highway of development. This is the case where industrialists are able to maintain high productivity with cheap labor, without sacrificing quality or innovation.[76] This was possible for a time in Japan and Europe after the War. Rebuilding readily absorbed large quantities of capital, while good quality labor was abundant and desperate for work. New manufacturing processes were invented, leaping over the previous achievements of American mass production, particularly in Japan. And labor was defeated – particularly in Japan – in a sharp series of struggles by the combined effort of capital, the state, and US occupation forces and the Marshall Plan – with help from the AFL-CIO in its Cold War mode. Workers hunkered down, accepted the deal they were dealt by 1950 and worked like the devil for the next generation, helping capital and country to perform brilliantly with double-digit growth rates for two decades. Nearly every one of the East Asian NICs who followed Japan also went through major land reforms, purges and renewal of the business and political elite, and either occupation or military dictatorship; and almost all have suffered extensive labor repression.[77]

But is this the only route to success in a global economy? No. Wage rates are not strictly determined by international competition or rates of technical change, and they can be raised by gaining back what was lost during the era of neo-liberalism. The situation cries out for labor organizing and a labor movement on the scale of the 1930s. Working people sorely need the protection and the wage gains that unionization makes possible. They need the voice of the unions and workers in politics, in order to win back government benefits, raise taxes on the bloated wealth of the rich, and tax financial transactions to slow speculation. And they need to support international labor organizing and sanctions against egregious forms of exploitation like child labor. They also need government industrial policy that softens the blow of restructuring and retiring old capital stock. The good news is that the American labor movement is beginning to stir again, and organizing has ceased to be a dirty word at the AFL-CIO. Yet many trade unionists are afraid to organize in the current environment. They fear that labor organizing, higher wages and better working conditions threaten the competitiveness and permanence of industry, and will cost workers their jobs. This fear is based on myths about economics and economic geography which are very widely shared, but which are largely untrue.

References

Aoyama, Y., 1996. From fortress Japan to global networks: locational Specificity of Globalization for the Japanese Electronics Industry in the 1990s. Doctoral dissertation, Department of City and Regional Planning, University of California, Berkeley.

Armstrong, P., Andrew, G., John, H., 1991. Capitalism Since 1945, 2nd ed., Blackwell, Oxford.

Amin, A., Thrift, N., 1992. Neo-Marshallian nodes in global networks. International Journal of Urban and Regional Research 16 (4), 571–587.

Amsden, A., 1989. Asia's Next Giant: South Korea and Late Industrialization. Oxford University Press, New York.

[76] There are, in fact, many paths down which places and sectors may travel, combining various features of job type, wage scales, research or design intensity, rates of technical change and the like. (Storper and Walker, 1989; Porter, 1990; Hart, 1998; Walker, 1998).

[77] On Japan, see Tabb (1995), on Korea, Cumings (1998) and on East Asia in general, Halliday (1980). On Europe after the war, cf. Mandel (1975).

Barrera, M., 1979. Race and Class in the Southwest. University of Notre Dame, South Bend.

Belman, D., Lee, T., 1996. International trade and the performance of US labor markets. In: Robert, B. (Ed.), US Trade Policy and Global Growth, 61–107. ME Sharpe, Armonk, NY.

Benner, C., 1999. In California's New Economy: Walking The Economic Tightrope. Working Partnerships, San Jose.

Blanchflower, D., Oswald, A., Sanfey, P., 1996. Wages profits and rent-sharing. Quarterly Journal of Economics 111 (1), 227–252.

Block, F., Coward, R., Ehrenreich, B., Piven, F.F., 1987. The Mean Season: The Attack on the Welfare State. Pantheon, New York.

Bluestone, B., Harrison, B., 1982. The Deindustrialization of America. Basic Books, New York.

Borjas, G., Freeman, R. (Eds.), 1992. Immigration and the Work Force. University of Chicago Press, Chicago.

Borjas, G., Ramey, V., 1995. Foreign competition, market power and wage inequality. Quarterly Journal of Economics 110 (4), 1075–1110.

Borts, G., 1960. The equalization of returns and regional economic growth. American Economic Review 50, 319–347.

Brenner, R., 1977. The origins of capitalist development: a critique of neo-smithian Marxism. New Left Review 104, 25–92.

Brenner, R., 1998. Uneven development and the long downturn: the advanced capitalist economies from boom to stagnation. New Left Review 229, 1–264.

Castells, M., 1996. The Rise of the Network Society. Blackwell, Cambridge.

Chomsky, N., 1998. The poor always pay debts of the rich. Guardian Weekly, 15.

Cline, W., 1997. Trade and Income Distribution. Institute for International Economics, Washington.

Collins, S. (Ed.), 1996. Imports Exports and the American Worker. Brookings Institution, Washington.

Cooke, P. (Ed.), 1989. Localities: The Changing Face of Urban Britain. Hutchinson, London.

Cooke, P., Morgan, K., 1998. The Associational Economy: Firms Regions and Innovation. Oxford University Press, Oxford.

Cox, K. (Ed.), 1997. Spaces of Globalization: Reasserting the Power of the Local. Guilford Press, New York.

Cumings, B., 1998. The Korean crisis and the end of 'late' development. New Left Review 231, 43–72.

David, P., Wright, G., 1997. Increasing returns and the genesis of American resource abundance. Industrial and Corporate Change 6, 203–245.

David, P., Rosenbloom, J., 1990. Marshallian factor market externalities and the dynamics of industrial localization. Journal of Urban Economics 28, 349–370.

David, P., 1975. Technical Choice Innovation and Economic Growth. Cambridge University Press, New York.

Davis, M., 1986. Prisoners of the American Dream. Verso, London.

Davis, M., 1998. Ecology of Fear: Los Angeles and the Imagination of Disaster. Metropolitan/Henry Holt, New York.

Devine, J., 1983. Underconsumption, overinvestment and the origins of the great depression. Review of Radical Political Economy 15 (2), 1–28.

DeVyver, F., 1951. The labor factor in the industrial development of the south. Southern Economic Journal 18, 189–205.

Dicken, P., 1998. Global Shift: Transforming the World Economy, 3rd ed. Guilford Press, New York.

Dumenil, G., Lévy, D., 1993. The Economics of the Profit Rate: Competition Crises and Historical Tendencies in Capitalism. Edward Elgar, Aldershot.

Dumenil, G., Lévy, D., 1996. La Dynamique du Capital: Un Siècle d'Économie Americaine. PUF, Paris.

Farber, H., 1996. The Changing Face of Job Loss in the United States 1981–1993. NBER Working Paper No. 5596. National Bureau of Economic Research, Washington.

Freeman, C., 1994. The economics of technical change. Cambridge Journal of Economics 18, 463–514.

Freeman, C., 1982. The Economics of Industrial Innovation, 2nd ed. Pinter, London.

Friedman, B., 1988. A Day of Reckoning: The Consequences of American Economic Policy Under Reagan and After. Random House, New York.

Gans, H., 1995. The War Against the Poor: The Underclass and Antipoverty Policy. Basic Books, New York.

Glyn, A., 1997–98. Egalitarianism in a global economy. Boston Review, 4–8.

Goldfield, M., 1987. The Declined of Organized Labor in the US. University of Chicago Press, Chicago.

Gordon, D., 1996. Fat and Mean: The Corporate Squeeze on Working Americans and the Myth of Managerial Downsizing. The Free Press, New York.

Gordon, M., 1954. Employment Expansion and Population Growth. University of California Press, Berkeley.

Gottschalk, P., Moffitt, R., 1994. The growth of earnings instability in the US labor market. Brookings Papers on Economic Activity 2, 217–254.

Greider, W., 1996. One World Ready or Not: The Manic Logic of Global Capitalism. Simon & Schuster, New York.

Griffith, D., 1993. Jones's Minimal: Low-Wage Labor in the US. SUNY Press, Albany.

Halliday, J., 1980. Capitalism and socialism in East Asia. New Left Review 124, 3–24.

Halimi, S., 1998. Liberal dogma shipwrecked. Le Monde Diplomatique. (English version) pp. 10–11.

Hammermesh, D., 1975. Interdependence in the labor market. Economica 42, 420–429.

Hanson, S., Pratt, G., 1995. Gender Work and Space. Routledge, London.

Harrison, B., 1974. Urban Economic Development: Suburbanization Minority Opportunity and The Condition of the Central City. Urban Institute, Washington.

Harrison, B., Bluestone, B., 1988. The Great U-Turn: Corporate Restructuring Laissez Faire and the Rise of Inequality in America. Basic Books, New York.

Hart, G., 1998. Multiple trajectories: a critique of industrial restructuring and the new institutionalism. Antipode 30 (4), 333–356.

Harvey, D., 1982. The Limits to Capital. Basil Blackwell, Oxford.

Harvey, D., 1985. Consciousness and the Urban experience. In: Money, time, space and the city. Johns Hopkins University Press, Baltimore, pp. 1–35.

Henwood, D., 1997. Wall Street. Verso, London.

Hirst, P., Thompson, G., 1996. Globalization in Question. Polity Press, Cambridge.

Howes, C., Markusen, A., 1993. Trade industry and economic development. In: Helzi, N., Julie, G., Ann, M. (Eds.), Trading Industries Trading Regions: International Trade American Industry and Regional Economic Development, 1–44. Guilford Press, New York.

Katz, L., Summers, L., 1989. Industry rents: evidence and implications. Brookings Papers on Economic Activity Microeconomics, 209–275.

Keegan, J., 1996. The Battle for History: Re-Fighting World War II. Vintage Books, New York.

Kochan, T., Katz, H., McKersie, R., 1986. The Transformation of American Industrial Relations. Basic Books, New York.

Kotkin, J., Friedman, D., 1998. Keep the champagne on ice. Guardian Weekly, 17.

Krugman, P., Lawrence, R., 1993. Trade jobs and wages. Working Paper No. 4478. NBER, Cambridge.

Krugman, P., 1996. Pop Internationalism. MIT Press, Cambridge.

Krugman, P., 1998. The Accidental Theorist (and Other Dispatches from the Dismal Science). WW Norton, New York.

Kuznets, S., 1966. Modern Economic Growth: Rate Structure and Spread. Yale University Press, New Haven.

Landes, D., 1970. The Unbound Prometheus. Cambridge University Press, London.

Leyshon, A., Thrift, N., 1997. Money/Space: Geographies of Monetary Transformation. Routledge, London.

Mandel, E., 1975. Late Capitalism. New Left Books, London.

Mandle, J., 1978. The Roots of Black Poverty: The Southern Plantation Economy After the Civil War. Duke University Press, Durham.

Marshall, A., 1919. Industry and Trade: A Study of Industrial Technique and Business Organization. Macmillan, London.

Marx, K., 1863. Capital Volume I. New York International Publishers, 1967 edn.

Massey, D., 1979. In what sense a regional problem? Regional Studies 13 (2), 233–243.

McWilliams, C., 1949. California: the Great Exception. AA Wyn, New York (Peregrine Smith., Santa Barbara, 1976 edn).

Meyer, M., 1990. The Greatest-Ever Bank Robbery: The Collapse of the Savings and Loan Industry. Charles Scribner's, New York.

Mitchell, D., 1985. Shifting norms in wage determination. Brookings Papers on Economic Activity 2, 575–599.

Moody, K., 1997. Workers in a Lean World. Verso, London.

Moore, B., 1966. The Social Origins of Dictatorship and Democracy. Beacon Press, Boston.

Nelson, K., 1984. Back Offices and Female Labor Markets: Office Suburbanization in the San Francisco Bay Area, 1965–1980. Unpublished Doctoral Dissertation, Department of Geography. University of California, Berkeley.

O'Brien, R., 1992. Global Financial Integration: The End of Geography. Pinter, London.

Orme, W., 1996. Understanding NAFTA: Mexico Free Trade and the New North America. University of Texas Press, Austin.

Page, B., Walker, R., 1991. From settlement to Fordism: the agro-industrial revolution in the American Midwest. Economic Geography 67/4, 281–315.

Perry, D., Watkins, Al., 1977. The Rise of the Sunbelt Cities. Sage, Beverly Hills, CA.

Phillips, K., 1990. The Politics of Rich and Poor. Random House, New York.

Phillips, K., 1993. Boiling Point: Democrats Republicans and the Decline of Middle-Class Prosperity. Harper Collins, New York.

Piore, M., Sabel, C., 1984. The Second Industrial Divide. Basic Books, New York.

Piore, M., 1979. Birds of Passage: Long Distance Migrants and Industrial Societies. Cambridge University Press, New York.

Porter, M., 1990. The Competitive Advantage of Nations. The Free Press, New York.

Pred, A., Watts, M., 1992. Reworking Modernity: Capitalisms and Symbolic Discontent. Rutgers University Press, New Brunswick.

Putnam, R., 1993. Making Democracy Work: Civic Traditions in Modern Italy. Princeton University Press, Princeton, NJ.

Reich, R., 1991. The Work of Nations. Alfred Knopf, New York.

Rigby, D., Essletzbichler, J., 1997. Evolution process variety and regional trajectories of technological change in US manufacturing. Economic Geography 73, 269–284.

Robinson, J, 1962. Essays in the Theory of Economic Growth. MacMillan, London.

Rodrik, D., 1997. Has Globalization Gone Too Far. Institute for International Economics, Washington, DC.

Romer, P., 1986. Increasing returns and long-run growth. Journal of Political Economy 94, 1002–1037.

Romer, P., 1996. Why indeed in America. Theory, history and the origins of modern economic growth. American Economic Review 86 (2), 202–206.

Rosenberg, N., 1982. Inside the Black Box: Technology and Economics. Cambridge University Press, Cambridge.

Sachs, J., 1979. Wages profits and macroeconomic adjustment. Brookings Papers on Economic Activity 2, 269–331.

Sachs, J., Shatz, H., 1994. Trade and jobs in US manufacturing. Brookings Papers on Economic Activity 1, 1–69.

Saxenian, A., 1994. Regional Advantage: Culture and Competition in Silicon Valley and Route 128. Harvard University Press, Cambridge.

Schor, J., 1991. The Overworked American. Basic Books, New York.

Schumpeter, J., 1939. Business Cycles. McGraw-Hill, New York.

Schumpeter, J., 1942. Capitalism Socialism and Democracy. Harper and Row, New York.

Scott, A., 1993. Technopolis: High Technology Industry and Regional Development in Southern California. University of California Press, Los Angeles.

Scott, A., 1996. Social and cultural articulations of the division of labor: native-born and immigrant social groups in southern California's manufacturing system, 1950–1990. (Unpublished manuscript).

Scott, A., 1998. Regions and the World Economy: The Coming Shape of Global Production, Competition and Political Order. Oxford UP, forthcoming.

Shaiken, H., 1990. Mexico in the Global Economy. University of California US – Mexico Research Center, San Diego.

Shaiken, H., 1994. Advanced manufacturing and Mexico: A new international division of labor? Latin American Research Review 29 (2).

Storper, M., Salais, R., 1997. Worlds of Production: The Action Frameworks of the Economy. Harvard University Press, Cambridge.

Storper, M., Scott, A. (Eds.), 1992. Pathways to Industrialization and Regional Development. Routledge, London.

Storper, M., Walker, R., 1989. The Capitalist Imperative: Territory Technology and Economic Growth. Blackwell, New York.

Storper, M., 1997. The Regional World: Territorial Development in a Global Economy. Guilford Press, New York.

Tabb, W., 1995. The Postwar Japanese System. Oxford University Press, New York.

Urwin, D., 1995. The Community of Europe: A History of European Integration Since 1945. 2nd ed. Longman, London.

Varian, H., 1996. Intermediate Economics: A Modern Approach 4th ed. Norton, New York.

Wade, R., 1990. Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization. Princeton University Press, Princeton.

Wade, R., Veneroso, F., 1998. The Asian crisis: the high debt model versus the wall street-treasury-IMF complex. New Left Review 228, 3–24.

Walker, R., Lizárraga, J., 1997. California in flux: immigration, economic growth and working class welfare. In: Anibal, Y.-C., Lionel, M. (Eds.), Immigration: The Panic and the Promise. SUNY Press, Albany, forthcoming.

Walker, R., 1995. California rages against the dying of the light. New Left Review 209, 42–74.

Walker, R., 1996. Another round of globalization in San Francisco. Urban Geography 17/1, 60–94.

Walker, R., 1997. California rages: regional capitalism and the politics of renewal. In: Wills, J., Lee, R. (Eds.), Geographies of Economies, 345–356. Edward Arnold, London.

Walker, R., 1998ms. California's debt to nature: natural resources and the golden road to capitalist growth, 1848–1940. Submitted to the Annals of the AAG.

Webber, M., Rigby, D., 1996. The Golden Age Illusion. Guilford, New York.

Wise, C., 1998. The Post-NAFTA Political Economy: Mexico and the Western Hemisphere. Pennsylvania State University Press, University Park.

Worster, D., 1992. Under Western Skies: Nature and History in the American West. Oxford University Press, New York.
Wright, G., 1986. Old South, New South: Revolutions in the Southern Economy Since the Civil War. Basic Books, New York.
Wright, R., Mark, E., Reibel, M., 1997. The linkage between immigration and internal migration in large metropolitan areas in the US. Economic Geography 73, 234–254.