

John O'Loughlin
Institute of Behavioral Science
University of Colorado at Boulder
Campus Box 487
Boulder, CO. 80309-0487

ECONOMIC GLOBALIZATION AND INCOME INEQUALITY IN THE UNITED STATES

Published in

Lynn Staeheli, Janet Kodras and Colin Flint (eds)

State Devolution in America: Implications for a Diverse Society. Thousand Oaks, CA: Sage
Publications, pp. 21-40. (Urban Affairs Annual Reviews 48).

The federal government, long viewed as a key actor in the amelioration of poverty, is now increasingly seen as a causal element in the trend of increasing income inequality in the United States. As noted in other chapters in this book, the size and scope of the national government are now being questioned and changed at the same time as the U.S. economy is more permanently embedded in the world economy. Growing inequality in the U.S. is occurring despite, or maybe because of, strong macro-economic factors such as low unemployment rates and high GDP (gross domestic product) growth rates.

In this chapter, I wish to examine the hypothesis that the increasing globalization of the U.S. economy, through increased trade and immigration, is an important element in the development of inequality and, by implication, in the role of national government. I first present the complex, and often contradictory, evidence for growing income inequality, taking careful note of the political biases within the debate. In the second section of the chapter, I present the key arguments over the causes of economic inequality in the U.S. This debate is delineated between those who emphasize processes at the domestic scale versus those who identify processes of economic change at the global scale. I conclude that the evidence is strongest for the role of economic processes related to globalization, but that these processes interact with domestic changes rather than stand in isolation. In the third section of the chapter, I wish to make the case that, while economists treat the U.S. economy as a unit, geographers are more careful to differentiate the relative impact of globalization on the fortunes of regional and local labor markets in a rapidly changing global economic environment (Agnew, 1988; Smith, 1988). This geographic differentiation adds an important dimension to the common worry about the development of a “dual-society” and therefore, I will discuss the differential impact of the

globalization effects in different labor markets of the U.S. The geographic perspective identifies the way that the creation of economic and social spaces recursively interacts with economic inequality. Geographies of opportunity and disadvantage are both a cause and a product of the economic inequality and social groups within countries. I conclude by considering the political implications of these economic developments for the dual role of the state, in promoting accumulation of national capitalists while maintaining the legitimation of the state through the implementation of measures that try to cope with the adverse effects of globalization on communities and industrial sectors. Diverse economic goals across space and differential economic opportunity across social strata encourages political fractionalism across both spatial and social lines.

THE EVIDENCE FOR GROWING INEQUALITY IN THE UNITED STATES.

In this section, I provide the context for my later argument by outlining the trends in income inequality using a variety of statistical indicators. The political nature of this debate obfuscates the picture as those wishing to promote a rosy view of the U.S. economy and its benefits to all segments of society are prone to use a different set of economic indicators than more pessimistic commentators. I start by setting the historical context of the current debate and then present the statistical indicators used by the optimists, followed by those adopted by the pessimists. I conclude this section by showing that controlling for educational qualifications is necessary to illuminate the fact that income inequality has indeed increased since the early 1970s.

Trends in income inequality are typically examined over the past quarter-century, since about 1970. This starting date is very important since the early 1970s mark the beginning of the global economic downturn (Wallerstein, 1979). The people of the United States became accustomed to world leadership and increasing domestic prosperity in the quarter-century after 1945; the past 25 years, by contrast, has been a period of economic anxiety, a “social and cultural war” about basic American values, and belated concern about a widening income gap between rich and poor. The mass of indicators measuring American decline give mixed signals; whilst most economic indicators show relative decline, the cultural and military-political indicators show continued U.S. dominance (O’Loughlin, 1993). Elliott (1996) makes a persuasive case that the nostalgia now visible in the U.S. for the halcyon days of the 1950s is misplaced because these golden years will not return. Instead, he argues that the more appropriate comparison is with the 1990-1914 period, when, as now, immigration was high, the economy experienced frequent oscillations, and semi-isolation reigned in the political sphere. It seems that future expectations matter more than present status. National surveys show great pessimism about the next generation. Robert Samuelson (quoted in Pearlstein, 1996) argues that much of today’s economic anxiety reflects not so much a decline in what Americans have as it does an increase in what they expect. In this sense, we see a frustration of rising expectations of wage and economic security.

Benjamin Disraeli’s comment about “lies, damned lies and statistics” comes quickly to mind as one slogs through the morass of evidence on the scope and extent of social inequality in the U.S. Different statistical indicators are adopted by commentators depending on the picture they wish to paint. The statistical debate can be easily seen in the dispute about the use of a key index, median family income, which has been stable or slightly falling in real terms over the past

quarter-century (O'Loughlin, 1993). It should be remembered that the “median family” has changed, with both more single-parent and dual-income households (*Economist*, 11 May 1996, 25). On an optimistic note, non-income indicators show that Americans are living better than ever; using more general measures of well-being such as amount of free time, number and quality consumer goods, real cost of basic necessities, and health and educational measures, the population generally is better off than ever before, even at the bottom of the income spectrum (Pearlstein, 1996). It also matters if one makes calculations using per capita income (optimists point out that real per capita income is up 38% since 1973) or median family income, used by pessimists and those who wish to demonstrate the existence of inequality (Pearlstein, 1996).

Evidence of “meritocratic inequality” (Bluestone, 1994, 87) is compelling; the traditional U.S. emphasis on equal opportunity, not equal outcome, shines clear. There was never a majority for equal outcome though there has been a national agreement for equal opportunity for over 20 years. Politicians across the political spectrum seem to agree with the recent position of the Federal Reserve Bank in Dallas which takes the position that “inequality is not inequity” and that “America as a Land of Opportunity lost... is just plain wrong” (quoted in Pearlstein, 1996, 6). That this position is no longer unique to the U.S. is seen in the recent retreat from the “equal outcome” policy in the United Kingdom to the U.S. “equal opportunity” one. Other responses to the worries about growing inequality are to challenge the data, to argue that inequality can change quickly in a society of high social and employment mobility like the U.S., and to dismiss inequality as irrelevant in a time of high economic growth (Krugman, 1994c, 140).

The pessimists who make the case of an increasingly-unequal society use indicators that show a) that the U.S. is the most “unequal” of the set of rich countries, b) that median family

income in the U.S. has been stagnant for over 2 decades, c) that while the rich get richer, the relative gap with the poor grows, and d) that growing inequality is happening despite greater productivity per worker in all sectors, especially in the manufacturing sector. Using Gini Coefficients of income, the U.S. is the most unequal of all rich OECD countries (*Left Business Observer*, 1996). Unlike other countries with high inequality scores (Ireland and Switzerland), the rich in the U.S. are better off than anywhere else, except Ireland (based on the 90th percentile as a percentage of median income); the poor (bottom 10 percent) in the U.S. are significantly worse off than any other country. The welfare net is lower (and will get lower with passage of the 1996 Welfare Reform Act) in the U.S. than any other rich country except Portugal (welfare spending as percentage of GDP). Only the United Kingdom approaches the U.S. in the changing wage inequality measures. Between 1980 and 1995, U.S. wage inequality (the ratio of the lowest wage decile to the median wage), grew by 15%. By contrast, the wage inequality in Germany declined by 7% (*Economist*, 1996, 62).

Median family income in the U.S. rose steadily from 1950 to 1975 but has been stagnant for the past 20 years while GDP continues to grow at the same rate as the 1950s and 1960s. 14% of new jobs created in the most recent expansion are in the “help-supply” services, up from 5% in the early 1980s expansion (David, 1995). This kind of “out-sourcing” relieves big companies of fixed costs but pushes more people into inferior service jobs and adds to income inequality. U.S. Census Bureau data provide the evidence for growing income inequality by quintile. The richest 20% of the population now own 48.5% of the income pie compared to 40.6% in 1969 while the poorest 20% have gone from 5.6% in 1969 to 3.6%. The middle

categories are quite stable. The percentage of the income enjoyed by the top fifth of families is the highest ratio since the 1920s.

To sharpen the argument between the optimists and the pessimists, there seems little doubt about growing inequality in the U.S. when one compares income quintiles or examines individual circumstances while controlling for educational qualifications. The income gap measures can be misleading unless the wage gap is compared to the rate of return to education. Between 1963 and 1987, the ratio of earnings of college graduates to high-school dropouts changed grew from 2.11 to 2.91. In the 1980s, the real income of high-school dropouts fell by 18%, high-school graduates fell by 13%, while that of masters (6+ years of college) graduates increased by 9%. Women fared better than men in overall wage growth. Three of four U.S. workers have not finished college so that, in total, only 15% of the workforce has seen increased wages in the past decade. More than half of all workers (high-school diploma or less) have experienced a loss of income in the past decade (Data from Mishel and Bernstein, 1993; see also Kusters, 1994). With the trend of falling real wages, (7% decline since 1973, according to Levine, 1995,91), the U.S. is increasingly “penniless” but with low unemployment because of its “flexible” labor market; in stark contrast stands Europe, “jobless” but with high welfare supports and wages (Krugman, 1994b).

There are some statistical questions about these wage series; the measures only consider cash wages and do not take rising nonwage compensation into account, while the Consumer Price Index (CPI) has been overadjusted for inflation (Pearlstein, 1996, 6). To avoid these statistical pitfalls, one can compare real wages for the same sectoral workers, for example, the wages of production workers from 1961 to the present (Leamer, 1996a). The evidence shows dramatically

that the 1970s was the decade of great change. By examining the 90th, median (50th) and 10th percentiles (highest, average and lowest-paid workers), Leamer has identified the developments in deflated (real) wages. At the 10th percentile, wages for production workers increased from about \$4.50/hour in 1961 to \$5/hour in 1971, remained at that level in 1981 but increased to about \$6.50/hour in 1991. The median wage earner was at \$6.75/hour in 1961, \$7.10/hour in 1971, remained there in 1981 and showed a dramatic shift to \$9.50/hour in 1991. The highest-paid production workers moved from \$8.50 in 1961 to \$10/hour in 1971, increased to nearly \$11/hour in 1981 and showed a dramatic increase to nearly \$15/hour in 1991. We may not know exactly what caused the dramatic developments of the past two decades in the standard of living for Americans, but we know that it began in the early-mid 1970s; the 1980s (the Reagan years) was a time of relative stability in wages. The relative level of manufacturing wages remains an important issue since this sector still contributes 70% of U.S. exports (Fry, 1995). To clarify the statistical exchange over the pattern of U.S. income inequality, levels of education and real wages within sectors must be considered. Only then can we conclude that income inequality is growing and that the 1970s was the climacteric decade.

The economic predicament of the American worker is only fully captured when productivity is considered as well as income. Real wages within a sector are stagnant at the same time as worker productivity is growing (David, 1995). In the past decade, U.S. productivity growth has skyrocketed. Radical changes have occurred in the American way of business and vast numbers of people have been affected by “downsizing”, “re-engineering”, “delaying” and “creative destruction”. The World Economic Forum now ranks the U.S. economy as the most competitive and U.S. workers are the most productive in the world. Profits of companies have

again risen after stagnancy in the early 1980s, but these profits have been disproportionately turned over to shareholders, corporate executives, or used for further investment. Compensation for workers has been relatively flat and the gap between compensation and productivity continues to widen. The business mantra of the day is “productivity”. “Productivity is not everything, but in the long run, it is almost everything” (Paul Krugman, quoted in David, 1995, 2).

Consideration of productivity suggests that the growing embeddedness of the U.S. in the global economy is a key component of the income inequality debate. However, though there are scholars who argue that globalization is to blame for growing income inequality, others point to changes within the domestic economy. In the next section, I summarize the debate between these two competing arguments and conclude that there is strongest evidence for the role of factor price equalization, itself a key component of globalization, in the trend of growing income inequality.

GLOBALIZATION AND RISING INCOME INEQUALITY IN THE UNITED STATES.

Given the evidence for the growth of income disparities in the United States, various attempts to account for the development have failed to come to any sort of consensus on its causes. The main cleavage is between those who believe that the main culprit is the changing nature of the domestic economy, from manufacturing to service jobs, and those who emphasize the increased incorporation of the American economy into the global markets through trade, immigration and investment. Freeman and Katz (1994) have tried to account for the various domestic and international factors leading to rising wage inequality in the U.S. and their list has been extended by Bluestone (1994). Of the 10 possible “culprits”, nine can be considered as

“globalization” factors, derived from the growing integration of the U.S. into the world economy or sectoral shifts due to the changing nature of jobs as a result of employment relocations. Two components of domestic change are often cited as causes of income inequality, technological change and deunionization. After showing that there is no conclusive evidence for these arguments, I will turn to the processes of globalization, namely, the trade deficit, factor price equalization and immigration.

The loudest advocate of the “changing technology” explanation for U.S. inequality is Paul Krugman. Like world-systems theorists, he believes that “in 1973, the magic went away” (Krugman, 1994c, 3). Krugman is honest in his assessment that the causes of rising inequality are still unclear, though he believes that the political implications of rising malaise lie in the interplay of economics and politics. Krugman argues that the new information technologies tilt the earnings distribution by rewarding skilled, highly-educated labor while reducing the demand (and therefore, the wages) for the products of the uneducated and unskilled workers (Krugman 1994 a,b,c; 1995; Krugman and Lawrence, 1994; Krugman and Venables, 1995). Even within the same sector, there is a widening gap between the top and the bottom of the educational spectrum. As machines replace workers, consumers are buying relatively fewer goods and more services (Krugman and Lawrence, 1994).

There is little empirical support for the technological change thesis; the impact of technological change on income inequality varies widely depending on the form of the statistical model and the type of data (Leamer, 1994). There are few signs that the rate of innovation (new machines or new products) is increasing (Bluestone, 1994). Most businesses are not introducing technologies that require new skills; if anything, there has been a deskilling of tasks. The formerly

low-level secretarial job of typing has decentralized by word-processing to all employees. Related to the “technological” explanation is “deindustrialization”, advanced by Barry Bluestone (1994) and Borjas and Ramey (1993), among others. The high service ratio in the U.S., now over 75%, has important inequality repercussions since the wage gap in this sector is large. In the manufacturing sector, the ratio of earnings between high-school dropouts and college graduates moved from 2.11 to 2.42 between 1963 and 1987, while the ratio moved from 2.20 to 3.52 in the service sector (Bluestone, 1994; Kusters, 1994). Recent employment growth has come in the services sector with cities like New York losing 600,000 manufacturing jobs while gaining over 700,000 service jobs between 1953-1984 (Castells, 1988). Further evidence for the effects of deindustrialization on the wage status of residents in the labor market can be clearly seen in Detroit, which lost 67,000 automobile manufacturing jobs (at 26% above the average wage for the U.S.) and gained 72,000 service jobs (at 4% above the average wage) in the two decades 1970 to 1990 (Deskins, 1996). Deindustrialization has its bright side as it allows upskilling of jobs in other sectors (Krugman, 1994a); manufacturing wages are now only 10% higher than those of the non-manufacturing sector when one considers the number of hours worked per week.

The difference in the rate of income inequality between the U.S. and continental Europe is large and so is the rate of unionization. The “deunionization” thesis claims that as the rate of worker unionization in the U.S. has plummeted since the 1960s to 13%, the ability of unions to pursue their consistent position of narrow wage differentials has been undermined (Freeman and Katz, 1994). Unions have not been very successful in penetrating either the new flexible (postfordist) manufacturing sectors nor the new service economy. Earnings inequality in the services sector is higher than earnings inequality in the manufacturing sector, when one controls

for educational and skills levels. Waving the threat to move off-shore can undermine unionization efforts, recognized even by those who do not believe the movement offshore has any appreciable effect on U.S. wage levels (Krugman, 1995, 242). Bluestone (1994, 91) thinks that U.S. labor law is deliberately inimical to the organizational efforts of unions and needs reform; stronger unions would help to redress the negotiating balance in favor of wage-earners (see Herod, this volume).

It is increasingly common for rising inequality to be blamed on “economic globalization”, which has two related elements, the persistent U.S. trade deficit (Bluestone, 1994; Prestowitz, 1991) and “factor price equalization”. Increased U.S. imports have contributed to the decline in manufacturing, the sector that helped to restrain earnings inequalities by paying higher-than-average wages. The import surplus into the U.S. is significantly composed of products made by low-skilled and modestly-skilled labor in Asia and Latin America, depressing the relative wages of U.S. workers at the bottom of the skills distribution. Krugman (1995) has tried to undermine this thesis, showing that the U.S. terms of trade has not changed in the past 25 years and that most of the increased imports are not from low-wage countries. Further, American consumers benefit from lower import prices and can then spend disposable income on other goods and services. Krugman stresses the accounting identity: domestic production = domestic consumption + exports - imports. Growing imports of manufacturing goods is almost matched by growing exports in most manufacturing countries and, consequently, the impact of trade on the size of the domestic manufacturing sector is small. By Krugman’s (1995) calculations, the trade deficit accounts for no more than one-tenth of the decline in the number of U.S. manufacturing jobs. Lawrence and Slaughter (1993) state boldly that international factors had nothing to do with America’s wage

performance in the 1980s, a position also supported by Bhagwati and Dehejia (1994) who conclude that increased U.S trade did not hurt wages in the 1980s, despite the theoretical claims of factor price equalization and the contradictory empirical data. Contrary to expectations, the relative prices of imported-unskilled-labor goods rose in the 1980s, rather than falling as the theory would predict.

Factor price equalization theory offers a theoretical explanation for the globalization hypothesis. Since the mid-1970s, world trade has expanded, despite the rise in non-tariff barriers in the U.S. and other countries. Under the wing of GATT (General Agreement on Tariffs and Trade) and now the WTO (World Trade Organization), the global neo-liberal trading regime is triumphant. Formerly autarkic countries like China and the (former) Soviet Union have entered the world trading system (1978 and 1989, respectively). According to factor price equalization theory, without intervention of the states to control imports, there will be equalization of wage rates across the globe, even in the absence of multinational capital investment or low-wage worker immigration. Factor price equalization is expected to continue as trade barriers fall, transport costs are reduced, communications improve and the newest innovations in production techniques diffuse worldwide. As factor price equalization develops (wages in the U.S. will become more similar to those in China and Mexico in the same unskilled categories), earnings inequalities grow as wages in high-skill jobs are not subject to the same global downward wage pressures. Leamer (1996a) estimates that free trade will reduce the wages of unskilled U.S. workers about \$1000 per year, a development spurred by the 1993 NAFTA agreement. Expecting these wage trends, it is no wonder that U.S. unions strenuously opposed NAFTA.

An examination of the relationship of industrial wages against the population size of countries making up the world economy is very dramatic and shows vividly the pressures for factor price equalization (Leamer, 1996a). The size of the populations in rich countries (the U.S. and Western Europe) with wages above \$9/hour (1985 dollars) is tiny compared to the massive numbers with wages in the range of \$1 and less/hour (China and India especially). Leamer (1996a,1) states that “if this is a global labor pool, it is a very strange one indeed, with the liquid piled high at one end and hardly present at the other”. Trade barriers are, of course, one reason why the situation persists but with falling trade barriers under the new WTO regime, the pool is expected to develop the same depth everywhere (factor price equalization). The support for the globalization hypothesis is bolstered by the strong temporal correlation between hourly manufacturing wages and trade dependence for the U.S. Using both CPI (Consumer Price Index) and PPI (Producer Price Index) deflators, Leamer (1996a) compared real wages trends with the increased exposure of the U.S. economy to trade (Imports+Exports/GDP) since 1960. The graph shows the abrupt halt in 1973 to the steady rise in real wages. This happened *at the same time* as the U.S. experienced a rapid rise in trade dependence, from 7% to 15%. Prior to 1973, the exposure of the U.S. to trade (about 9%) was lower than the Soviet Union in the same period: the ratio by 1980 was 21% (Morici, 1995/96). Using wage data, Leamer (1993, 1994, 1996a) demonstrated that the effects of globalization are significantly greater than technological change in statistically explaining the changes in wages between 1961 and 1991. In the 1970s, the wages of unskilled workers in the U.S. fell by 40% while in the 1980s, they rebounded by 20% as a result of the change in U.S. producer prices (Leamer, 1996b).

Immigration is also often cited by politicians and commentators as a key cause of depressed wages for native U.S. workers. A more accurate picture is that immigration is just another consequence of the deeper integration of the U.S, into the world economy and plays a relatively minor role when compared to factor price equalization. There are also, undoubtedly, strong regional and local effects in the influence of immigration on prevailing wages as cities that act as major destinations for immigrants will experience greater wage competition between native and immigrant unskilled workers. The economic processes of income inequality are embedded within the creation of new geographies of globalization, including immigration flows (see Wright, this volume).

In the 1980s, 38% of net population growth was contributed by immigration (Morici, 1995/96). A recent estimate by the Census Bureau indicates that of the 18 million new jobs to be created in the U.S. in the next 20 years, 13 million will be filled by immigrants to the U.S., mostly from Asia and Latin America. The effect on income inequality will be exaggerated if the majority of the immigrants are low-skilled and compete with the unskilled native population for the shrinking pool of decent low-skilled jobs. The average immigrant to the U.S. today has one year of education *less* than the native worker, and undocumented immigrants probably have a larger education gap, there seems little doubt that immigrants have the effect of increasing the supply of unskilled labor in some U.S. cities, thereby depressing wages and increasing resentment among native unskilled workers, as in Miami (Nijman, 1996), Los Angeles, Dallas (Hicks and Dixon, 1996) and other big cities. The U.S. situation stands in contrast to Canada, where immigrants have, on average, over a year of education *more* than native worker as a result of a national

immigration policy that stresses human capital skills over family reunification, as is the case in the U.S. (Bluestone 1994).

The cause-by-cause analysis of the processes that I have discussed give some indication of each one's role in the trend towards growing income inequality in the U.S. However, a more informative picture is provided if the interaction of the processes operating at the domestic and the global scales is considered. In trying to estimate the effects of different factors in accounting for rising inequality in the U.S., Freeman and Katz (1994) compared two groups of male workers in the 1980s, those with high-school and with college-education. Technological change accounted for 7% to 25% of the change in respective wages, deindustrialization accounted for between 25% and 33%, deunionization accounted for about 20%; trade and immigration (*aka* globalization) accounted for 15% to 25%; and finally, the trade deficit accounted for 15% of the relative changes in wages. These estimates for the 1980s show that every major economic trend affecting the U.S. at the present time contributes to the growing inequality of the society. Economic processes at both the global and domestic scales are adversely affecting income inequality. With fewer and fewer institutional constraints on market forces and the "great society" tradition in rapid retreat in the 1990s, we can expect the inequalities to worsen and social unrest to worsen.

A GEOGRAPHY OF INEQUALITY IN THE UNITED STATES

The discussion of growing income inequality and the economic processes causing it has, so far, assumed that the U.S. economy is a homogenous unit of analysis. In this section, I show that

processes of globalization require a conceptualization of the U.S. economy as a mosaic of regional and local labor markets. Each of these labor markets are trying to compete within a global economy through the definition of geographically-specific attributes. The changing geography of production over the course of American history led, by the time of World War II, to a recognizable economic core and periphery in the United States. Geographers and regional economists distinguished between an industrial core in the Northeast and Midwest and a less-urbanized periphery in the South and West. Political allegiances were similarly defined and a dichotomous view of the geography of the country was sufficient for many purposes. Old regional divisions began to ebb after 1945 with the industrialization of the periphery and especially after 1970, the fordist industrial structure of the traditional manufacturing heartland began to collapse, most notably in the steel, automobile and chemical industries. By the 1980s, it was recognized that local distinctiveness had replaced sectional or regional divisions as the most visible element of the industrial geography of the United States (Agnew, 1987; 1988.) The internationalization of the U.S. economy had led to the collapse of the traditional integrated production sectoral firms that heretofore dominated a region. Manufacturers contracted out operations, frequently to companies in other countries; some moved offshore or to a more “competitive” location in the United States. A new polarization between the growth regions of the West and South and the traditional heartland of manufacturing developed and it was paralleled by a more localized polarization within metropolitan areas as “citadels” developed in many downtowns as the command centers of the new business services, banking and financial operations, and multinational manufacturing. A growing social polarization in the “dual cities” of

prosperity and decline became visible in most U.S. metropolises (Mollenkopf and Castells, 1991; O'Loughlin and Friedrichs, 1996).

Geographers consider the U.S. not just as a market and production point in the world-economy, but as a set of local labor markets with divergent fortunes in the past two decades. For purposes of illustration, contrast Detroit and Boston. Detroit has witnessed a dramatic loss of automobile and ancillary manufacturing jobs to other parts of the U.S. and abroad (46% decline between 1970 and 1990; Deskins, 1996), while Boston boomed in the 1980s as a result of high-tech manufacturing. The U.S. has had a long-standing comparative disadvantage in leather products, miscellaneous manufactures, apparel, primary metals, transport equipment, automobiles, and electronics while enjoying a comparative advantage in industrial machinery, chemicals, tobacco products, instruments and fabricated metals, using the ratio of net imports to production (Leamer, 1996a). Clearly, local labor markets that have a specialization in the products with a U.S. comparative advantage will generally prosper while the reverse is true for the sites of manufactures with comparative disadvantage. Labor-intensive products with price reductions change the labor demand curve to generate lower real wages for unskilled workers who live in metropolitan areas with an oversupply of unskilled workers (Detroit) while raising the wages of unskilled workers in cities with lots of skilled workers (Boston) (Leamer, 1996a,b).

The relative economic fortunes of metropolitan areas can be seen in the Census data reported in Levine (1995). Of the 12 cities in the study, all except Boston showed a decline in the percentage of wage earners in the middle-income category (\$20,000 to \$40,000 in 1990 constant dollars) between 1970 and 1990, from about 40% of the workforce to about 35%. When examining the wages of workers in new jobs, 72% of earners were below \$20,000 in Detroit

compared to only 35.5% in Boston. In the U.S., jobs in export-oriented companies pay better and this sector is booming as the 129% gain in manufacturing exports, 1985-1994, far out-stripped the export growth of 112% or the GDP growth of 25% (Morici, 1995-96; Kresl, 1995). While U.S. domestic companies continue to seek cheap wage locations by avoiding unionized cities, foreign manufacturers in the U.S. are more concerned with the purchasing power of the population (Grant and Hutchison, 1996).

With a regional geography of economic “competitiveness” added to the social inequality present in all metropolitan areas, it is no wonder that the 1993 NAFTA vote in the Congress exhibited a political-geographic faultline between the North and Midwest versus the South and West (Clark, 1994). Representatives from localities likely to see job losses as a result of greater imports of products of unskilled Mexican labor strongly opposed the bill, while representatives from states bordering Mexico or likely exporters of services and goods to Mexico were supportive. While some U.S. cities like San Francisco have long experienced cycles of greater and lesser involvement with the external global economy, in this case, across the Pacific Ocean (Walker, 1996), others like Dallas-Ft. Worth, Minneapolis-St. Paul and Portland, Oregon, are now more integrated in the economic world beyond the American borders because the economy as a whole is less isolated and autarkic (Hicks and Nixon, 1996; Kaplan and Schwartz, 1996; Harvey, 1996; Kresl, 1995).

The challenges and consequences of globalization described here for the U.S. are common to rich countries. The significant decline in GDP growth rates for capitalist countries after 1970 coupled with the accelerated growth of foreign direct investment to a level in the late 1980s that was 10 times that of the early 1970s suggests a marked break with the past (Magdoff, 1992). In a

longer temporal perspective, the years around 1970 mark another important breakpoint. The nature of capitalism in the first 70 years of this century, with manufacturing based on fordist principles, required a sort of co-dependency of workers and capitalists. All rich capitalist countries were marked by decreasing income inequality as higher wages led to a rise in labor incomes relative to capital incomes (Wilterdink, 1995). The states, including the U.S. after 1930, also increased welfare programs to reduce the excesses of social inequality. Since about 1970, this co-dependency of workers and capitalists has broken down as capital incomes have increased substantially relative to that of workers. Companies display few local or national loyalties as the internationalization of manufacturing weakened the generations-old linkage with place and people. The phrase, "what is good for GM is good for the United States" reflects this local nexus. There is no sign of a turnaround and the trend poses a dilemma for governments trying to come to terms with the globalization that affects all countries. In the United States, the devolution of government functions reflects the increasing importance of local points of production. Government restructuring is promoting local initiative at the expense of federal involvement. Though reduced federal involvement may help the competitiveness and flexibility of localities in a global economy, the growing local responsibility for the economically-disadvantaged raises concerns for the less fortunate members of the least competitive places.

In the rush to study globalization, we should continue to take the traditional geographic tack of examining the dialectical relations of the local and the global while not neglecting the actions of the national government, as it seeks to mediate between the losers and winners of greater global involvement. The national government has endeavored to engage in a balancing act between local economic interests (winners and losers in globalization) as well as continuing to

balance the accumulation interests of American capitalists against the need for legitimation of the political-economic system that is increasingly seen as a failure by many workers suffering a decline in real wages and in standard of living. One political-geographic solution to these dilemmas is to decentralize the operations of the national government to the states and localities so that each can pursue its own individual economic policies (see Flint, this volume). Otherwise, the government remains caught in the conflict between the free trade interests of states like California and the protectionist interests of states like Arkansas. Therefore, government restructuring is an essential response to the economic processes operating at the global, domestic and local scales. In the next section, I conclude my argument by highlighting some of the important themes of the political debate and how they relate to government restructuring.

THE POLITICS OF INCOME INEQUALITY

Contemporary debates about income inequality and the appropriate political response stem from the years of the “Reagan Revolution” in the 1980s. In the presidential campaigns in 1988, 1992 and 1996, social inequality at home was related to a variety of foreign policy and trade issues, indicating that changes within the global economy stimulated domestic political initiatives.

Indeed, in the bigger global picture, these concerns are not unique to the U.S.; other rich Western countries have the same worries and show similar trends towards greater inequality, though only the United Kingdom has values as extreme as the U.S. (Bluestone, 1994; *Economist*, 10 August 1996, 43; Wilterdink, 1995). The expression “*Zwei-Drittel-Gesellschaft*” (two-thirds society)

aptly characterizes the present situation of inequality in France and Germany (O'Loughlin and Friedrichs, 1996) and Canada (Levine 1995). Though the reach and level of welfare support is greater in Western Europe than in the U.S., the same trend of growing neglect of the poor can be detected through a kind of "welfare fatigue" (Bluestone, 1994). All countries feel the same globalization pressures (Barnet and Cavenagh, 1994) and governments generally adopt the same policies of trying to shield their populations and companies from the negative aspects of globalization (legitimizing role of government) while promoting their national industries who have a relative advantage (accumulating role of government).

Economic processes operating at both the global and domestic scales are producing income inequalities which are embedded within a geography of opportunity and constraint. The dual social and spatial manifestation of income inequality creates a problem for government policy which aims to ameliorate poverty whilst encouraging regional economic initiatives. In the face of economic globalization and the consequent increase in the role of regions and localities, it is harder for the federal government to create national policies to promote industries. Yet, giving regions and states greater roles in economic policy, including welfare policies, risks the loss of national safety nets (see Cope, this volume). Thus, regional pressures on the federal government to devolve its role in accumulation raise questions about how its legitimating role will be maintained.

In considering economic policies to promote the competitiveness of U.S. industry in the global environment, two issues are paramount. If the problem is globalization, then the answer is "upgrading skill levels" and more education. It is easier to select the wrong targets (immigrants, welfare recipients, taxes and regulations) than to start the long, slow process of adjusting to a and

confused governments. There are two obvious legitimization options for the state to pursue in the new realities of the global economy. The first option would erect trade barriers and other devices to protect “uncompetitive industries” and their workers. In the U.S., there are still over a million workers in the garment, textile and apparel industries. Though the number is shrinking steadily, their differential concentration in the Southern states and in some big cities such as Los Angeles generates strong local economic and political impacts as a result of layoffs. The U.S. economy is more protected than is often realized: the equivalent tariff percentage of the nontariff barriers on steel, car and textiles imports is equal to 24% (de Melo and Panagariya, 1992). In the long term, the disparity between a U.S. position strongly supporting free trade in the World Trade Organization and a policy that is protectionist is hardly sustainable.

The local imperative of economic competitiveness in the global economy promotes the second option, education, in which the state invests in human capital to allow upskilling for all workers. The costs of this option are enormous and take a long time to have a noticeable effect. Leamer (1996a) believes that the adverse reaction to the extension of NAFTA to Mexico in certain sectors in the U.S. was a telling commentary on the shortcomings of the U.S. educational system. The returns of education can be seen in the level of the “skill premium. Surveys show an increasing return for college-education (compared to high-school education and dropping out) over the past two decades. Only when this educational enterprise is engaged more seriously will the current wage inequality begin to stabilize or perhaps decrease. Because education is predominantly a local and state responsibility in the U.S. and is likely to see less rather than more national government involvement in the future (Shelley, this volume), the geographic implications

are enormous; wider differences in state and local spending would further increase local and state disparities in economic welfare.

Current political discontent in the U.S. focuses upon the role of the government in the production of wealth and the amelioration of poverty. In this chapter, I have shown that income inequality has both spatial and social manifestations which are recursively linked. In addition, government policies aimed at increasing “economic competitiveness” are likely to enhance geographic inequities. There is substantial evidence to suggest that, while the macro-economic indicators look fine, it is the stagnation and decline in the standard of living of a majority of Americans that is the source of anger and disappointment with politicians of all stripes and the basis of the support for politicians such as Patrick Buchanan (Phillips, 1994). The swing of ideological cycles, now in a conservative phase, is clearly evident. (See also Schlesinger, 1986). Over time, geographic differences between “winners” and “losers” might exacerbate sectional political rivalries to the point of generating regional parties of protest, as in the U.S. earlier in this century as well as contemporary Europe. Such a development would indeed turn American politics on its head.

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