# STATE DEVOLUTION IN AMERICA

## IMPLICATIONS FOR A DIVERSE SOCIETY

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# 2

# Economic Globalization and Income Inequality in the United States

JOHN O'LOUGHLIN

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 toward 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 United States is occurring despite, or maybe because of, strong macroeconomic factors, such as low unemployment rates and high GDP (gross domestic product) growth rates.

In this chapter, I will 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 contradictory evidence related to the debates over income inequality in the United States. These debates usually focus on trend data, but the data are often for different time periods, industrial sectors, and income measures. As a result, the "hard evidence" presented by individual researchers is contradictory. These contradictions have been used by politicians and others to support their own political positions and their views on whether income inequality is increasing or decreasing.

In the second section of the chapter, I present the key arguments over the causes of economic inequality in the United States. This debate is delineated between those who emphasize processes at the domestic scale and 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. Once again, I pay close attention to the political biases within the debate.

In the third section of the chapter, I 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). This geographic differentiation adds an important dimension to the common worry about the development of a "dual-society"; therefore, I will discuss the different impact that globalization has on various labor markets of the United States. 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 of 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 encourage political factionalism 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, for 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 begin 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. To conclude this section, I show 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, because 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. By contrast, the past 25 years have been characterized by 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; although 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 United States 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 1900-1914 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 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 United States. 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). In interpreting this income figure, it should be remembered that the "median family" has changed, with both more single-parent and dual-income households ("Politics Into Economics," p. 25). Furthermore, it matters whether one considers only wage income or also includes non-income indicators. 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 of 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). But measures of wage income are mixed. It matters, for example, 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).

Bearing in mind these warnings about changes in family structure, what the data measure, the politically charged nature of the debate, lies, and statistics, we can turn attention to the central question: What is the evidence related to income trends? As noted above, the evidence is mixed and often confusing. The remainder of this section examines the statistics related to income in the United States and attempts to interpret them in light of their political implications.

Evidence of "meritocratic inequality" (Bluestone, 1994, p. 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 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, p. 6). That this position is no longer unique to the United States is seen in the recent retreat from the "equal outcome" policy in the United Kingdom to the "equal opportunity" policy of the United States. 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 United States, and to dismiss inequality as irrelevant in a time of high economic growth (Krugman, 1994c, p. 140).

The pessimists, who make the case of an increasingly unequal society, use indicators that show that (a) the United States is the most "unequal" of the set of rich countries; (b) median family income in the United States has been stagnant for over two decades; (c) while the rich get richer, the relative gap with the poor grows; and (d) growing inequality is happening despite greater productivity per worker in all sectors, especially in the manufacturing sector. Using Gini Coefficients of income, the United States is the most unequal of all rich OECD countries ("America: Still World Capital of Inequality," 1996). Unlike other countries with high inequality scores, the rich in the United States are better off than anywhere else (based on the 90$^{th}$ percentile as a



percentage of median income) except Ireland. However, the poor (the bottom 10th percentile) in the United States are significantly worse off than in any other country. The welfare net is lower (and will get lower with passage of the 1996 Welfare Reform Act) in the United States than in any other rich country except Portugal (measured as welfare spending as a percentage of GDP). According to this analysis, U.S. wage inequality (the ratio of the lowest wage decile to the median wage) grew by 15% between 1980 and 1995.

Median family income in the United States 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. Fourteen percent 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 owns 48.5% of the income pie compared to 40.6% in 1969, whereas the poorest 20% have gone from 5.6% in 1969 to 3.6%. The middle categories are quite stable, but the percentage of the income enjoyed by the top fifth of families is the highest ratio since the 1920s. 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 because 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 climactic decade. Indeed, there seems little doubt about growing inequality in the United States when one compares income quintiles or examines individual circumstances while controlling for educational qualifications. Between 1963 and 1987, the ratio of earnings of college graduates to high school dropouts grew from 2.11 to 2.91. In the 1980s, the real income of high school dropouts fell by 18%, that of high school graduates fell by 13%, while that of master's (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 with a high school diploma or less have experienced a loss of income in the past decade (Mishel & Bernstein, 1993; see also Kosters, 1994). With the trend of falling real wages (7% decline since 1973, according to Levine, 1995, p. 91), the United States is increasingly "penniless" but with low unemployment because of its "flexible" labor market (Krugman, 1994b).

One can also compare real wages for the same sectoral workers in the same sector as Leamer (1996a) has done for production workers from 1961 to the present. 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 real wages for production workers. 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. In this sector, at least, it seems clear that there has been a dramatic increase in income inequality.

The economic predicament of the American worker is only fully captured when productivity is considered as well as income. Real wages within most sectors are stagnant at the same time that 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," "delayering," and "creative destruction." The World Economic Forum now ranks the U.S. economy as the most competitive and U.S. workers as 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 or 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." As Krugman notes, "Productivity is not everything, but in the long run, it is almost everything" (quoted in David, 1995, p. 2).

Consideration of productivity suggests that the growing embedment of the United States in the global economy is a key component of the



income inequality debate. Once again, however, this is a contentious issue, for there are some scholars who argue that globalization is to blame for growing income inequality and others who point to changes within the domestic economy as the culprit. In the next section, I will summarize the debate between these two competing arguments.

## 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 it have failed to come to any sort of consensus on its causes. The main cleavage is between those who believe the culprit is the changing nature of the domestic economy and its shift 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 United States, and their list has been extended by Bluestone (1994). Of the ten possible "culprits," nine can be considered as "globalization" factors, derived from the growing integration of the United States 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. In this section, I review the empirical evidence for and against each of these arguments related to the domestic economy. 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. Again, I review the empirical evidence for and against each position.

### The Domestic Economy

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, p. 3). Krugman is honest in his assessment that the causes of rising inequality are still unclear. He 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, 1994a, b, c, 1995; Krugman & Lawrence, 1994; Krugman & 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 & Lawrence, 1994).

There is little empirical support for the technological change thesis presented by Krugman. There are few signs that the rate of innovation (new machines or new products) is increasing (Bluestone, 1994). Most businesses, for example, are not introducing technologies that require new skills; if anything, there has been a de-skilling of tasks. The formerly low-level secretarial job of typing has been decentralized by word processing to all employees. Furthermore, the impact of technological change on income inequality varies widely depending on the form of the statistical model and the type of data used, rather than on the technological change itself (Leamer, 1994).

Related to the technological explanation is the *deindustrialization* argument, advanced by Barry Bluestone (1994) and Borjas and Ramey (1993), among others. This explanation appears to have more empirical support. The high service ratio in the United States, 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; Kosters, 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 and 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 United States) and gained 72,000 service jobs (at 4% above the average wage) in the two decades between 1970 and 1990 (Deskins, 1996). Deindustrialization has its bright side because it allows up-skilling of jobs in other sectors (Krugman, 1994a); manufacturing wages are now only 10% higher than those of the nonmanufacturing sector when one considers the number of hours worked per week.

The *deunionization* thesis claims that as the rate of worker unionization in the United States has plummeted since the 1960s to 13%, the



ability of unions to pursue their consistent position of narrow wage differentials has been undermined (Freeman & Katz, 1994). Unions have not been very successful in penetrating either the new flexible (postfordist) manufacturing sectors or the new service economy. Earnings inequality in the services sector is higher than earnings inequality in the manufacturing sector when controlled for educational and skill levels. That waving the threat of moving offshore can undermine unionization efforts is recognized even by those who do not believe the movement offshore has any appreciable effect on U.S. wage levels (Krugman, 1995, p. 242). Bluestone (1994, p. 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).

### Globalization

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. A significant portion of import surplus into the United States is 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 have 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 manufactured goods is almost matched by growing exports in most manufacturing countries; 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 nontariff barriers in the United States and other countries. Under the wing of GATT (General Agreement on Tariffs and Trade) and now the WTO (World Trade Organization), the global neoliberal trading regime is triumphant. Formerly autarkic countries like China and the former Soviet Union have entered the world trading system (in 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 (e.g., wages in the United States will become more similar to those in China and Mexico in the same unskilled categories), earnings inequalities grow because 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 between industrial wages and the population size of countries making up the world economy shows vividly the pressures for factor price equalization (Leamer, 1996a). The percent of the populations in rich countries like the United States and Western Europe with wages above $9/hour (in 1985 dollars) is tiny compared to the massive percent in countries like China and India with wages in the range of $1/hour and less. Leamer (1996a, p. 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 (considering both trade and factor price equalization) is bolstered by the strong temporal correlation between hourly manufacturing wages and trade dependence for the United States. Using both CPI (Consumer Price Index) and PPI (Producer Price Index) deflators, Leamer (1996a) compared real wage trends with the increased exposure of the U.S. economy to trade (imports + exports/GDP) since 1960. The trend lines show an abrupt halt in 1973 to the steady rise in real wages. This happened *at the same time* as the United States experienced a rapid rise in trade dependence, from 7% to 15%. Prior to 1973, the exposure of the United States 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 United States fell by 40%; whereas in the 1980s, they rebounded by 20% as a result of the change in U.S. producer prices (Leamer, 1996b).

Finally, *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 United States 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. 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 U.S. Census Bureau indicates that of the 18 million new jobs to be created in the United States in the next 20 years, 13 million will be filled by immigrants, mostly from Asia and Latin America. The effect on income inequality will be exaggerated if the majority of the immigrants are low-skilled workers and compete with the unskilled native population for the shrinking pool of decent low-skilled jobs. The average legal immigrant to the United States today has one year of education *less* than the native worker. Because undocumented immigrants probably have an even 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 in cities such as Miami (Nijman, 1996), Los Angeles, Dallas (Hicks & 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 workers as a result of a national immigration policy that stresses human capital skills over family reunification, as is the case in the United States (Bluestone, 1994).

### Summary and Evaluation

The cause-by-cause analysis of the processes that I have discussed gives some indication of each one's role in the trend toward growing income inequality in the United States. 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 United States, Freeman and Katz (1994) compared two groups of male workers in the 1980s, those with high school and those with college education. Technological change accounted for 7% to 25% of the change in respective wages; deindustrialization for between 25% and 33%; deunionization for about 20%; trade and immigration (globalization) 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 United States 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 both inequalities 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 homogeneous unit of analysis. In this section, I will 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 tries 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, when 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 developed between the growth regions of the West and South and the traditional heartland of manufacturing, and it was paralleled by a more localized polarization within metropolitan areas as "citadels" developed in many downtown areas 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 & Castells, 1991; O'Loughlin & Friedrichs, 1996).

Geographers consider the United States in the past two decades not just as a market and production point in the world economy, but as a set of local labor markets with divergent fortunes. 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 United States and abroad—a 46% decline between 1970 and 1990, according to Deskins (1996)—whereas Boston boomed in the 1980s as a result of high-tech manufacturing. The United States has had a longstanding 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 (Leamer, 1996a). Clearly, local labor markets that

have a specialization in the products with a U.S. comparative advantage will generally prosper, whereas 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 many 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 United States, jobs in export-oriented companies pay better; and this sector is booming as the 129% gain in manufacturing exports between 1985 and 1994, far outstripped the export growth of 112% or the GDP growth of 25% (Kresl, 1995; Morici, 1995-1996). While U.S. domestic companies continue to seek cheap-wage locations by avoiding unionized cities, foreign manufacturers in the United States are more concerned with the purchasing power of the population (Grant & 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 Congress exhibited a political-geographic fault line between the North and Midwest, and 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, whereas representatives from states bordering Mexico or likely exporters of services and goods to Mexico were supportive. Whereas 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 (Harvey, 1996; Hicks & Dixon, 1996; Kaplan & Schwartz, 1996; Kresl, 1995).

The challenges and consequences of globalization described here for the United States 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 breaking point. The nature of capitalism in the first 70 years of this century, with manufacturing based on fordist principles, required a sort of codependency 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 United States after 1930, also increased welfare programs to reduce the excesses of social inequality. Since about 1970, this codependency 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 weakens the generations-old linkage with place and people. The phrase "What's good for GM is good for the country" (U.S.) 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 who are suffering a decline in real wages and 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 United States; other rich Western countries have the same worries and show similar trends toward greater inequality, though only the United Kingdom has values as extreme as the United States (Bluestone, 1994; Equality: Opportunity knocks, 1996, p. 43; Wilterdink, 1995). The expression "*Zwei-Drittel-Gesellschaft* (two-thirds society) aptly characterizes the present situation of inequality in France and Germany (O'Loughlin & Friedrichs, 1996) and Canada (Levine, 1995). Though the reach and level of welfare support is greater in Western Europe than in the United States, 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 & Cavenagh, 1994), and governments generally adopt the same policies of trying to shield their populations and companies from the negative aspects of globalization (legitimating role of government) while promoting their national industries that have a relative advantage (accumulating role of government).

Economic processes operating at both the global and domestic scales are producing income inequalities that 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 while 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 economic change. 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 United States, 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 textile imports is equal to 24% (DeMelo & 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 upgrading skills for all workers. The costs of this option are enormous, and it takes 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 United States 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 United States 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 United States focuses on 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 that 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, although 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 of disappointment with politicians of all stripes and that is the basis of the support for politicians such as Patrick Buchanan (Phillips, 1993). 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 was the case in the United States earlier in this century as well as in contemporary Europe. Such a development would indeed turn American politics on its head.

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