

# **Introduction: Globalization Comes Home—The US Economy and Business**

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More than any other country the United States shaped the post-World War II global economy, and yet it long remained aloof from the global forces it unleashed. A continental giant, the United States saw its economy develop, and US firms emerge and prosper, by dint of the size and strength of its own internal market. Even as it became the cornerstone of the international economy in the post-World War II years, its level of integration and interdependence with other national economies was relatively low. Although international trade as a percentage of the US economy grew from below 6 percent in 1970 to about 13.5 percent in 2006, the comparable figure for European countries is roughly 50 percent.<sup>1</sup> Although foreign banks have operated in the United States for close to two hundred years, those operations were practically unheard of before the 1980s and began to proliferate only in the 1990s. Although assimilation of new immigrants to the United States was not always easy, it is only recently that fear of immigrants has been linked to larger global processes. And although US-based multinational enterprises (MNEs) pioneered the process of building transnational networks of production, until the 1980s those networks were limited—and relatively few foreign firms had built production networks in the United States. America is the only developed country in which “international business” is still a concept: in most other advanced industrial regions, business *is* international.

Indeed, it hasn't been until recently that globalization has 'come home.' That is, it is only relatively recently that most of what we consume is manufactured abroad, that we've begun to see the names of foreign firms and banks displayed across our cities, that white-collar jobs have begun to migrate overseas, and that social benefits many Americans have long enjoyed—such as pensions and healthcare—have suddenly become unaffordable luxuries. In short, it is only recently that Americans have become aware of globalization's impact on the basic structures of the US economy, US business, and American society as a whole.

Observers have been debating the merits of globalization and the free market-oriented policies that succor it for decades. For globalization's supporters, the expansion of global markets for goods and services and expanding networks of production serve the cause of economic efficiency and wealth accumulation. Export industries are reliable job creators and, by definition, imports put the most affordable goods into the hands of consumers. But for its detractors, globalization puts both economic and political power into the hands of unaccountable MNEs, heightens financial uncertainty, and exacerbates economic inequalities, environmental degradation, and resource depletion.<sup>ii</sup> These detractors have become increasingly alarmed about the phenomenon of 'outsourcing'—firms' use of outside providers, particularly foreign firms or affiliates, to undertake tasks once done in-house—and its implications for middle-class jobs in the United States.

This book does *not* join this debate. Although our contributors may explicitly or implicitly support or decry globalization and its perceived benefits or costs to the United States, this book's purpose is to describe and analyze these phenomena, not to advocate a particular position. Our authors ask crucial questions about globalization's role in

reshaping the US economy: How does globalization affect the competitiveness of US firms, the nature and security of Americans' jobs, and the roles of the public and private sector in providing 'collective goods' like healthcare and pensions to Americans? What effect does the growing presence of foreign multinationals have on the composition of production and employment in the United States—and the relative economic and social benefits associated with them?

Finding answers to these questions has never been more important than it is right now. Growing trade deficits, the decreasing value of the dollar, the rising price of oil, expanding global financial networks, and the deepening immersion of the US economy in worldwide trade and production networks affect the lives of ordinary Americans in unprecedented ways. On the one hand, Americans are enjoying the fruits of economic globalization, including lower inflation and greater access to a variety of goods and services. On the other hand, many also experience the dark side of globalization, including the ripple effects of global financial crises, plant closures, jobs outsourced to China and India, and, with the rise of international banking, more money laundering and foreign financing for terrorist groups in the United States.

As a result, Americans have grown uneasy about the integration of the United States into the global economy. International trade has been a particular focus of these concerns. A recent *Wall Street Journal* report cited a 2007 poll revealing that Republican voters, by a nearly two-to-one margin, believe that free trade is bad for the US economy—in dramatic contrast to the Republican Party's historical support for reducing trade barriers.<sup>iii</sup> Another 2007 poll found that all Americans' support of international trade had fallen to 59 percent from 78 percent only five years earlier—the lowest among

the forty-seven countries in the survey.<sup>iv</sup> Given the current backlash, it is essential to have a better sense of what globalization is and what its implications for the US economy truly are.

Before embarking on this quest, however, it is important to recall that globalization is not immutable. The expansion of global economic networks is dependent on the choices of governments about how open to international markets they wish to be. And the US government has greater capacity (if a lesser inclination) to intervene in markets than most governments, if it sees fit to do so. It is the result of US government decisions to lower trade barriers that has led to the flood of imports into the United States; it is government deregulation that has led to the growth of foreign banking across the nation. Furthermore, it is the *choices* of individual firms that have led to the expansion of global production. Globalization is an incredibly powerful process that is reshaping politics, economics, society, and culture in the United States and around the world. But it is not an all-powerful god—it is the sum of its parts, ultimately involving the decisions of governments, individuals, and firms.

In this chapter, we introduce the core themes of globalization’s impact on the US economy that the ensuing chapters address in more empirical detail. We begin by briefly defining and unpacking the concept of economic globalization. We then lay out the issues of employment, competitiveness, and the “socioeconomic bargain” at the center of our examination of globalization’s impact on the United States. The following section surveys the contributors’ perspectives on these issues. The chapter concludes with a brief summary of the book’s arguments and findings.

## **I. DEFINING ECONOMIC GLOBALIZATION: NETWORKS OF ECONOMIC INTERDEPENDENCE**

We begin here with Joseph Nye’s definition of globalization as “the growth of worldwide networks of interdependence.”<sup>v</sup> The most relevant networks of interdependence for our purposes are economic: those that have facilitated world trade, capital flows, and labor mobility. Multinational firms combine production at home with operations abroad, engaging in both trade and foreign direct investment to sell their goods and services to consumers around the world. International investors are increasingly free to roam the world in search of profitable investments, giving entrepreneurs the world over greater access to financial capital. Labor is less free to cross borders than goods, services, or capital, but migration has increased dramatically in recent years, creating Diaspora communities across the globe. As the physical and political obstacles have receded, these networks have multiplied and expanded exponentially, connecting the sourcing, production, and financing of goods and services and the customers who use them.

On the supply side in particular, these networks are tightly intertwined: trade, finance, production, consumption, and labor dynamics are all mutually interdependent. For example, the Mexican financial crisis of 1995 led overextended American banks to risk billions in order to halt the peso’s slide. It also led to a surge of immigrants from Mexico to the United States looking for work to feed their families back home as the peso’s value depreciated. Meanwhile, the removal of trade barriers between the United States and Mexico—combined with subsidies to American farmers—led Mexico to import US corn at levels that put a million and a half Mexican corn growers out of work. This in turn led many of them to emigrate to the United States in order to find work on

California farms.<sup>vi</sup> Globalization is ultimately the process whereby these types of phenomena expand to a planetary scale.

## **II. THE ISSUES AT STAKE: EMPLOYMENT, COMPETITIVENESS, AND THE SOCIAL SAFETY NET**

The authors in this volume, whatever their particular focus, address one or more of three general effects of globalization: (1) on the nature of employment and the composition of the labor force; (2) on the competitiveness of US business both at home and in the global economy; and (3) on the socioeconomic bargain among business, labor, and government to construct a social safety net composed of pensions, unemployment compensation, job security, disability insurance, and other “cushions” against market insecurities.

Before we discuss these three issues in more detail, a couple of points of clarification are in order. First, we are primarily interested in the *composition* of production and employment—that is, *what* the United States produces and *who* produces it. Although we do address the question of whether economic globalization raises or lowers levels of production and employment in the United States, we are most concerned with the *kind* of jobs and businesses that globalization creates and takes away. Second, the discussion does not address *all* economic activity in the United States, but only business in *tradable* goods and services. There are a number of sectors and jobs—such as retail, restaurants, nursing, and security guards—that are nontradable and thus are at most only indirectly affected by globalization as we understand it.<sup>vii</sup>

### **Employment**

The United States has traditionally had a relatively flexible labor market. The federal government places fewer restrictions on firms' freedom to hire and fire workers than in Europe, and US social norms are more amenable to market-driven layoffs than those in Japan. This freedom to hire and fire is generally greater in sectors with low levels of unionization—particularly services, which now accounts for the lion's share of US economic activity. As such, there has always been a relatively high level of 'churn' in US employment: workers change jobs and even professions far more often—and generally have less job security—than their counterparts in Europe and Japan, experiencing more directly what Joseph Schumpeter identified as capitalism's 'creative destruction.'

Globalization may speed up this churn: there is an ongoing debate as to whether decreasing US employment in certain professions is a result of free trade and capital mobility, or whether technological change is primarily to blame.<sup>viii</sup> To the extent that globalization consists of unfettered trade and capital *and* technological change, then surely it is implicated.

Nevertheless, the point remains that globalization changes the composition of employment more than the level of employment—i.e., some jobs are lost, but new ones are created. The \$64,000 question is whether the jobs created are 'better' than the ones lost—i.e., does a laid-off middle manager making \$64,000 a year get a new job as a burger flipper making minimum wage, or as a venture capitalist making far more than previously? The answers are of course far more complex than this simple either-or proposition, but at a basic level this is the question on the minds of our contributors.

## **Competitiveness**

The issue of globalization's impact on the competitiveness of the American economy can be summed up as a concern with America's "production profile" and its effect on national wealth and prosperity. The production profile is a snapshot of tradable goods and services that a country produces at any one time. That snapshot reveals the potential for American growth and competitiveness: the more US businesses and workers have a comparative advantage (i.e., are relatively skilled, productive, and cost-efficient) in producing *high value* or *value-added*<sup>x</sup> goods and services, the more profitable and prosperous they will be.<sup>x</sup> The question thus becomes: are American firms and workers still competitive in sectors associated with high value-added production?

To address this question, we need first to consider the historical basis of US production in these sectors. The US economy's production profile evolved in response to its 'given' comparative advantages and level of development, long before the relatively recent expansion of trade and transnational production networks. The United States developed a comparative advantage in capital- and knowledge-intensive production as it industrialized and grew wealthy in the nineteenth and twentieth centuries, and the share of global production in labor-intensive industries such as textiles and light manufacturing in the US economy began to decline long before foreign competition essentially made these industries unviable in the United States. Meanwhile, the United States is historically an industrial giant but in recent decades has seen relative decline in sectors such as steel, automobiles, and even semiconductors—yet this trend reflects a long-term shift in the US economy away from heavy industry and especially agriculture toward services like entertainment, banking, insurance, communications, and transportation (see Table 1 below).

**Table 1. Shares of US employment by sector<sup>xi</sup>**

	<u>Agriculture</u>	<u>Manufacturing</u>	<u>Services</u>
1880	50	24	26
1940	14	30	56
2000	3	20	77

However, US manufacturing and service sectors are now deeply integrated into networks of interdependence, so it makes little sense to address the US production profile in isolation from those networks. Within this context, the key question becomes: what *position* does the United States economy occupy in the value chain of globalized production? Will the United States continue to benefit from domestic production of tradable high value goods and services—thus bringing income and wealth to Americans?

A general approach this question is to look for over-time shifts in the comparative advantages of the United States. Are labor and capital more productive in America than in other countries in creating and distributing high-value goods and services—particularly those in the capital- and knowledge-intensive sectors? Can US firms and/or the US government create a *competitive* advantage in high-value goods and services, and should they attempt to do so if that is what firms and governments abroad are attempting to do?<sup>xii</sup> And does US firms’ ‘offshoring’ of key aspects of production—i.e., their outsourcing of tasks such as factory work and customer or technical support to locations abroad—purchase cost savings at the cost of hollowing out the overall US domestic productive capacity?

### **The socioeconomic bargain**

As we noted above, political decisions have played a central role in the current wave of globalization. Global networks of people, finance, trade, and production expand when governments decide that shielding their firms and workers, and economies and societies more generally, from some or all of these networks is not in their interest. They also respond to the economic pressures created by these networks through policies of “state shrinking”—that is, reducing their own interference in the market by limiting the rules (e.g., for worker safety or a minimum wage), and occasionally the resources (e.g., for welfare programs), that create and sustain the social safety net.

Weakening the social safety net potentially breaks the socioeconomic bargain between the state and its citizens, a bargain in which the government agrees to protect its citizens from the harsher aspects of capitalism, such as low wages and unemployment. Furthermore, the imperatives of achieving global competitiveness exerts pressure on firms to lower their costs of production, and thus to break their own social bargain with labor by shrinking their contribution to healthcare, pensions, employment insurance, and work safety standards.

As this brief discussion of the issues at stake—employment, competitiveness, and the socioeconomic bargain—suggests, the dynamics of globalization are relevant to the most important aspects of the US economy, of US business, and of the US social safety net. The contributors to this volume address the question of *how* globalization is relevant—what its impact is and is likely to be in the future—in each of these areas. We discuss their contributions in the following sections, starting with employment and competitiveness and then moving on to the socioeconomic bargain.

### **III. GLOBALIZATION'S IMPACT ON AMERICAN EMPLOYMENT AND COMPETITIVENESS**

To say that globalization affects employment in the United States, and affects the relative competitiveness of American workers and businesses, is to state the obvious. Yet the picture you get when addressing globalization's effects in these areas depends on the cases you examine—and our authors address a wide range of cases, from national to the local level and from the whole (socio-) economy to specific sectors . The diversity of cases they explore permits new insights into a phenomenon of which our understanding remains sketchy at best.

In this section, we discuss our authors' analyses of globalization's impact on employment and competitiveness from two general perspectives. The first, covering immigration and banking, involves the effects of transnational flows of people and finance into the United States. The second, rather more in-depth discussion, involves the implications for American employment and competitiveness of US participation in transnational trade and production networks.

#### **Transnational networks come home**

##### *Migrant networks*

An important facet of globalization is the integration of labor markets in the world economy.<sup>xiii</sup> The emergence of a global division of labor doesn't just involve who does what work, but also *where* the work is done—and thus the question of labor migration. In the United States, the immigrant population (legal and illegal) reached a record of 37.9

million in 2007;<sup>xiv</sup> at 11.5 percent of the population, this is the highest proportion of immigrants in almost a hundred years. In absolute terms, even at the peak of the great wave of immigration in the early twentieth century, the number of immigrants living in the United States was only 40 percent of what it is today (13.5 million in 1910). This immigration now accounts for two-thirds of US population growth.

Americans have not always embraced these new waves of immigrants, fearing the consequences for existing US entitlements, jobs, education, and culture. Starting in the 1990s, anti-immigrant sentiment has driven large increases in federal resources for border policing, aimed at deterring illegal immigration. The federal budget for enforcement operations increased threefold between 1993 and 1998,<sup>xvii</sup> and threefold again between 1998 and 2003.<sup>xviii</sup> The rise of illegal immigration has emerged as one of the hottest issues in the 2008 election: a 2007 CNN/Opinion Research Corporation poll reported that voters saw immigration policy as one of the five top election issues and a potential dealbreaker for them in deciding whom to support for president.

Whatever Americans' attitudes toward it, immigration is intimately related to the future of the US labor market. In her chapter, Anaïs Loizillon focuses on immigrants and their children (the 'second generation')—which will account for most of US labor force growth over the next thirty years. To remain competitive the United States needs an educated and highly skilled labor force, so the capacity of the second generation to attain this education and these skills becomes an important concern.

Immigrants' role in the hi-tech sector illustrates their value to the US economy: according to Loizillon, a quarter of engineering and technology firms created between 1995 and 2005 were headed by immigrants, and the founders of eBay, Google, Intel, Sun

Microsystems, and Yahoo! are either immigrants or children of immigrants. She cautions, however, that America as a ‘land of opportunity’ for immigrants and their children may be coming to an end. Compared to the native population, a higher percentage of immigrants and their children are poor, lack health insurance, and draw on government assistance.<sup>xix</sup> Loizillon is concerned that growing limits on social mobility are hindering both the economic and social assimilation of this ‘second generation’ of immigrants.

Why? She argues that these limits on social mobility are not due to immigrants’ legal status or their willingness to work; compared to the native population, a higher percentage of immigrants are employed.<sup>xx</sup> Not surprisingly, these limits are due to low education levels: about half of the ‘second generation’ enter the workforce after high school rather than continue their education, and another fifth are working while attending school. Children of Cuban and Mexican origins—making up the highest proportion of immigrants and the highest of those immigrants in poverty—have a higher probability of choosing an employment-only path rather than continuing their education than children of other origins. Given their future role in the US labor market, one has to consider the impact of initial career path decisions in terms of how they will play out over an entire career trajectory. The prospects for labor’s contribution to a robust American production profile, she argues, are not good.

### *Financial networks*

The dramatic reduction in political and technological barriers to international investment activity in recent decades has facilitated cross-border trade in financial assets and the subsequent growth of global financial markets. This ‘financial globalization’ can be seen

in the recent surge in international banking, in the growth of foreign exchange markets, and in growing cross-border portfolio investment. It has many potential benefits, including more efficient global allocation of resources and more readily available financing for private and public investment. Nevertheless, this interconnectedness heightens participants' exposure to financial shocks that may cause large-scale economic disruption. The late 1990s Asian Financial Crisis, for example, had ripple effects both deep and wide, engulfing the savings of ordinary Thai and Indonesian citizens as well as those of international investors and governments in Brazil and Russia.

In his chapter, Benton Gup addresses how these global financial networks 'come home' in the United States in the operations of foreign financial institutions. As of the early 2000s roughly two hundred foreign banks from more than fifty countries now operate in the United States, holding well over \$200 billion in commercial and industrial loans (roughly 18 percent of the US total). Although the federal government regulates these formal banking institutions, informal and underground financial networks have also proliferated. Gup cautions that the spread of these networks, some benign (such as those through which immigrants send remittances to family in their home countries) and some more ominous (such as those through which drug dealers and terrorists launder money) can be difficult to regulate and occasionally present law enforcement challenges for US officials.

The arrival of foreign banking operations is not necessarily a sign of decreasing US competitiveness in the financial sector. Foreign banks and their US affiliates do not benefit from lighter regulation: they have the same responsibilities (oversight by the Federal Reserve) and rights (access to Federal Reserve services) under American banking

rules as US-based banks. Foreign banks have grown quickly by expanding their portfolio of loans to attract new customers, but American banks have also maintained steady growth through consolidation and by maintaining a stable customer base. Indeed, as long as foreign banks' US branch operations aren't subsidized by their parent banks, competition and a level playing field can force US banks to operate efficiently and improve their performance both domestically *and* in international markets.

### **US participation in global trade and investment networks**

As tariff and nontariff barriers to commerce have been reduced over the past half-century, the ensuing expansion of international trade has become a hallmark of globalization. The United States has long been the world's largest importer and continues to vie with Germany and Japan for the position of the world's largest exporter. Robust international trade relationships have drawn the US economy ever more deeply into global networks of trade—and increasingly, of foreign direct investment (FDI)—as firms seek the most effective ways to bring their goods and services to consumers.

US and foreign firms' competition to reach consumers around the world compels them to reshape their production networks to survive and profit in a global marketplace. US-based firms now face competition from foreign companies in their home market, as American consumers demand foreign products and American manufacturers demand cheaper inputs from foreign suppliers. As a result, we've seen not only a growing US trade deficit but also an acceleration of US firms' investment abroad as they seek to improve their position vis-à-vis foreign firms both at home and abroad.

To some extent this globalization of production follows the dictates of comparative advantage. Manufacturing of labor-intensive goods such as textiles, toys, and computers is increasingly located in countries that have an abundance of low-cost workers: Chinese firms like Lenovo and American firms like HP both manufacture laptops in China. Meanwhile, capital- or knowledge-intensive production of high-value goods and services such as computer software and biotechnology largely (though not wholly) remains in the advanced industrial countries, which currently have large pools of capital and high-skilled workers. But hi-tech production doesn't always stay in advanced countries. In what Raymond Vernon called the 'product cycle,' high value-added goods tend to be produced in advanced countries in the period soon after their inception, and their production moves to emerging economies once the product is commodified and production routinized.<sup>xxi</sup> The authors in this volume discuss other related dynamics that push firms to spread their production processes to foreign countries, because of cost considerations or in order to gain access to those markets.

Another key aspect of the distribution of firms' production tasks involves the increasingly networked structure of global business linkages. To a significant extent, as Thomas Friedman has argued, "the world is flat."<sup>xxii</sup> What this means is that multinational firms seem decreasingly inclined to be 'vertically integrated' —that is, to manage all aspects of the production process (including acquisition of raw materials, manufacturing, and marketing) internally within a given firm. Rather, firms outsource key aspects of their operations to other firms (whether domestically or internationally), while they themselves focus on their 'core competencies.' For example, IBM no longer makes computers, because it has determined its core competence to be in 'business solutions';

Nike in effect no longer manufactures shoes—it markets them. In this sense, globalization involves the logic of comparative advantage as applied to firm operations, creating less hierarchical relationships among ‘upstream’ and ‘downstream’ components of an overall production process that may span several countries before its final products reach consumers in the United States and elsewhere.<sup>xxiii</sup>

And although we are more interested in the *consequences* of globalization for the United States than in its causes, it is worth noting two factors that are also closely associated with the spread of these networks: capital mobility and market competition. Thanks to advances in the technology of transportation (container shipping, etc.) and communications (the Internet and other forms of cheap, instantaneous communication), it has become far easier for firms to relocate aspects of their production or other operations abroad. As a result, firms have more flexibility regarding how they distribute their tasks.

US multinational firms pioneered the creation of global production networks as they sought greater access to raw materials and foreign markets. After a period of postwar and postcolonial retrenchment, European and Japanese multinational firms soon followed their US counterparts. Indeed, most foreign direct investment relationships have been among these countries—Europe, for example, has long been and continues to be the primary target for US firms’ FDI. It is only more recently that developing countries such as China and India have become major destinations for US firms’ direct investment—yet these developing countries’ investments in the United States are comparatively tiny. Thus the expansion and integration of international production networks (especially those not involving raw materials) is still predominantly a rich-world phenomenon—i.e., not truly

‘global’<sup>xxiv</sup>—though the emergence of the East Asian tigers as well as large developing countries such as China, India, and Brazil are changing this.

How do networks of trade and production bring globalization home to the United States? From a demand side perspective, it is widely accepted that American consumers benefit: trade gives them a greater variety of goods and services among which to choose, and at lower prices—leaving them more disposable income to spend on other goods and services, including those produced domestically. American consumers enjoy these benefits regardless of who produces these goods and services and where.

Our concern in this volume, however, is more with the “supply side”—i.e., globalization’s effects on production rather than consumption. We begin by considering these effects when US firms go abroad, and then turn to the effects of foreign investment in the United States.

#### *US outward investment, employment, and competitiveness*

US firms are world leaders in terms of their level of investment abroad. US firms’ stock of foreign direct investment has long been about twice the level of the next most assiduous foreign investors, those from the United Kingdom. Between 1980 and 2005, US firms’ foreign assets rose roughly tenfold, from \$215 billion to nearly \$2.1 trillion.<sup>xxv</sup> In some cases these investments involved outright mergers and acquisitions, integrating existing foreign firms into a US parent company as a wholly owned affiliate; other investments involve joint ventures or more limited linkages between a US-based MNE and a foreign firm.

What is driving US firms to be so prolific in establishing production networks abroad? In the early years of US multinationals—back in the 1960 and 1970s—they were often seeking greater access to European and Japanese markets that maintained relatively high trade barriers to US exports. More recently, as Cynthia Kroll’s chapter in this volume tells us, US firms are driven to invest abroad largely for two reasons: to reduce labor costs and to gain ‘insider’ access to key foreign markets. Jeffrey Hart agrees with this assessment, distinguishing between ‘vertical FDI’—in which US firms invest in countries like China and India to benefit from lower wage and thus production costs—and ‘horizontal FDI’—in which US firms invest in Europe and other rich countries to gain privileged access to their wealthy consumers. Kroll also notes that investing directly in foreign countries allows firms to learn more about consumer tastes in those markets—perhaps to avoid snafus akin to General Motors’ Chevy Nova problem, in which the automaker once attempted to market a car in Mexico whose name (*‘no va’*) translated to ‘doesn’t go.’

Berch Berberoglu views the causes of US outward investment abroad differently. Examining US firms’ forays abroad from a critical and historical perspective, he argues that their foreign expansion has been part and parcel of a more general expansion of American domination of the international (economic) system since World War II.<sup>xxvi</sup> Thus the shift during the 1960s in US firms’ ‘imperial investments’ from raw materials into manufacturing is representative of a broader shift in the basis of control that the owners of capital impose on the world—and on the implications for American workers.

When Americans think about US firms’ foreign direct investment these days, what often comes to mind are the downsides of offshoring—namely, the perceived

abandonment of production in the high-wage United States for low-wage countries like China, with the associated loss of factories and jobs. In his chapter, Daniel Meckstroth seeks to allay these fears, arguing that US firms' primary rationale for expanding foreign investment is horizontal (in Hart's terms) rather than vertical—i.e., firms don't go abroad primarily in search of low wages, but rather for better market access. Meckstroth cites the work of economist Matthew Slaughter to make the point that, although firms do have an incentive to reduce their costs, “low wages abroad do not necessarily mean low production costs,” because workers in these low-wage countries tend to be less productive, and more general woes such as political instability or poor infrastructure may hamper firms' operations there.<sup>xxvii</sup> Meanwhile, Meckstroth provides data supporting his claims that US-based multinationals are retaining the vast majority of their employment within the United States, and that, more generally, US firms' foreign affiliates “complement rather than supplant domestic economic activity”—i.e., the US economy as a whole gains from these firms' greater efficiency and productivity, and that the decline of uncompetitive industries and sectors of employment is a necessary side effect of a process that maximizes wealth in the aggregate. As Meckstroth reminds us, outsourcing can only change the composition of work in the United States, not the overall level of employment.<sup>xxviii</sup>

How does that process affect the composition of US employment? If new jobs are being created as uncompetitive industries die and new industries are born, what are they? These questions recall the larger set of issues concerning how US employment fits within an increasingly global distribution of labor. Looking at this big picture, Jaffee and Kroll consider the effects of globalization on the composition of US employment to be

relatively benign. Examining macro-level data on offshoring and US employment, Jaffee makes two important observations. First, not only are Americans whose jobs were offshored finding new jobs, but their new jobs provide comparable—often higher—wages. In other words, the image of the middle-manager-turned-burger-flipper is inaccurate. Second, the fear that entire industries will cease production in the United States is misplaced; US firms are outsourcing some occupations and tasks (e.g., call centers), but retaining other jobs and production at home. Overall, Jaffee suggests that people have perceived offshoring and outsourcing to be more extensive and malign than they are because job losses are far more immediate and observable than re-employment.

Kroll, looking specifically at the services sector, sees a somewhat more mixed picture. She notes that certain US workers in high-tech professions such as information technology may indeed experience greater job insecurity due to offshoring and outsourcing. This perspective is in line with that of Hart, who sees some R&D-related occupations within service industries moving abroad. Yet the negative effects of offshoring are limited, Kroll suggests. Employees in service and high-tech jobs whose jobs are not offshored may see significant wage gains. Meanwhile, in service occupations less amenable to foreign outsourcing, wage growth may be slow. Similar to Jaffee, Kroll concludes that concerns over outsourcing and offshoring are often overblown, suggesting that less than one-tenth of 1 percent of the total jobs lost in the United States in 2005 were directly due to these aspects of globalization.

But what you see depends on where you look. Gary Hytrek spies a bleak employment picture in one key area of employment: manufacturing. Hytrek evaluates the ‘deindustrialization’ of the US economy and the shift toward employment in services

from a sociological perspective, arguing that assembly line jobs and the solid middle class security they offered are being replaced by a broader dispersion of income and benefits among those now employed in high- and low-value services, both of which have lower rates of unionization than the disappearing manufacturing jobs. Despite their wide variation in pay and benefits, however, what all these service jobs seem to share are long working hours and low job security. Hytrek suggests that globalization is largely to blame for this shift in the composition of US employment, noting not only the offshoring of US factories and jobs but also evidence that the greatest job gains over the past forty-odd years have been in the occupations whose tasks are difficult to outsource (e.g., janitors, security guards, and other positions in the nontradable sector).

Another consideration regarding globalization and US employment involves the types of skills Americans need to succeed within a global distribution of labor. There is little question that American workers with few or no specialized skills are disadvantaged by the availability of millions—even billions—of unskilled workers in developing countries willing to work for a fraction of the US minimum wage. On this front several authors cite concerns that those higher on the skills ladder are also vulnerable to the globalization of production. Kroll estimates that 11 percent of white-collar jobs (of any sort) in the United States could be done remotely, though not necessarily offshore. Hytrek adds that workers in high-tech manufacturing may also be vulnerable, and Hart draws similar conclusions regarding high-tech services and R&D jobs.

Hytrek makes an additional point about worker skills in the United States in an era of globalization: in an increasingly competitive, winner-take-all system, individual workers face constant pressure to enhance their own skills merely to avoid losing

ground—and receive comparatively little assistance on this front from the state. It is in this light that we should view Loizillon’s warning about the prospects of the second generation of immigrants into the United States: if they are the future of the US workforce, and they face barriers to acquiring necessary skills, one becomes gloomier about the future of American work. From this vantage point, it is difficult to escape the conclusion that, as political and technological barriers to global operations continue to fall, American workers at *all* skill levels increasingly compete with their counterparts in other nations. That does not mean that Americans will lose this competition, but it does suggest that they will need to continue to ‘up-skill’ if they are to remain at the high end of the value chain.

At the macro level, then, it seems clear that globalization hurts both unskilled workers and some white-collar workers in the United States. Hytrek argues that globalization more generally worsens existing relationships of social stratification in the United States: not only does it increase the income gap between top managers and everyone else, but it also increases the vulnerability and insecurity of those already near the bottom of the social ladder—including blacks, immigrants, and older workers.

At a more micro level, Michael Schulman and his co-authors focus squarely on how global production has affected employment in a sector of society not often associated with globalization: rural communities. They peek into the lives of employees that were laid off from a plant that made Converse sneakers and shifted its production to low-wage countries to better compete. Schulman et al. note that rural workers who lose their jobs have a more difficult time finding new employment than their urban counterparts, and observe the human effects layoffs have on local communities and

families therein—particularly on women. They exhort the reader to remember that all globalization processes are ultimately rooted in specific local contexts, and that particular local contexts suffer particular effects in the face of plant closures and offshoring.

Thinking in broader terms, there seems to be a consensus that, to the extent that we can think of the key economic and social actors in the United States as falling into categories of ‘capital’ and ‘labor,’ the former category has seen great gains (both absolute and relative) while the latter has seen relative decline. One way to understand this divergence is in terms the relative mobility of different factors of production. Capital is increasingly mobile: firms can now invest nearly anywhere in the world in which they stand to achieve the highest returns. Labor, by contrast, remains relatively immobile: large political and social barriers remain that prevent countries with abundant labor from ‘exporting’ it to countries with labor shortages. Therefore, not only are workers unable to easily shift their supply of labor to places where demand for it is greatest and thus where wages are potentially highest, but unlike the owners of capital (i.e., investing firms) workers cannot credibly threaten to ‘exit’ their home market—or in many cases, even their home towns—as a means of influencing economic policy.<sup>xxix</sup>

Turning to the issue of competitiveness, the question among our authors is whether and how outward investment affects American firms’ and employees’ prospects for maintaining their comparative advantage in high value-added production. Meckstroth, for one, is not concerned that the transfer of productive capacity abroad means that comparative advantage in high-value goods will shift to foreign (especially developing) countries. He is primarily interested in the trajectory of US industrial production, and in calming the fears of those that see not only the decline of traditional US industrial firms

such as the Big Three automakers but also other US multinationals' inclination to offshore a larger share of their overall activities. Meckstroth shows that, if anything, the roles of both US and foreign multinational firms in the US economy are increasing, and that they are retaining much of the higher-value aspects of production (including research and development) within the United States.<sup>xxxix</sup> He also points out that US industrial production and productivity continue to increase, even though employment may be declining relative to other areas of the US economy.

Douglas Jaffee and Cynthia Kroll, in their separate papers, consult the empirical record on the relationship between outsourcing and US comparative advantage in high-value goods and each arrives at a relatively sanguine conclusion. Jaffee addresses the nature of comparative advantage and the conditions under which comparative advantage in high-value goods might pass to developing country competitors. In general, he does not consider US firms' offshoring of production to other countries to contribute to shifts in comparative advantage. Kroll, for her part, focuses more on the services sector, both in general and via a survey of a variety of California firms and their experience with globalized production. She finds that the United States is retaining its comparative advantage in high-end services, but its trade surplus in services has shrunk in recent years (though service trade is more difficult to measure than trade in goods).

Hart, surveying the globalization of production in a variety of high-tech industries (including semiconductors, software, and biotechnology), sees a mixed picture. In some high-tech industries American firms remain industry leaders producing primarily within the United States, but in others foreign producers have clearly captured a competitive advantage, due in part to the 'knowledge diffusion' resulting from US firms moving their

production abroad. Hence there may be reason to believe that US firms' expansion of production abroad is accelerating emerging markets' progress in catching up with the United States—and possibly challenging US comparative advantage in hi-tech goods and services.

Jaffee sounds a similar note of caution: “it is no longer possible to be as assuredly optimistic that offshoring and globalization will benefit the United States. The core issue is the possible loss of comparative advantage in high-tech industries. While such a loss is not plausible over the next decade, it is a relevant concern over the next fifty years.” If Jaffee's longer-term scenario is borne out, the United States might lose its position at the high end of the global value chain—and thus the wealth-producing effects of high-value domestic production and employment.

#### *Inward investment into the United States*

While US firms were pioneers in extending their operations abroad during the early years of postwar globalization, it is only since the 1980s that the United States has itself become a major target market for foreign multinationals.<sup>xxxiii</sup> In 1975, inflows of foreign direct investment were at a level of less than one-tenth of 1 percent of GDP; by 2000 that figure had grown to more than 2.5 percent of a much larger US economy.<sup>xxxiv</sup> So, although the US economy is less globalized in terms of inward FDI than some peer countries—Britain, Germany, and Canada all had FDI inflows of 5-6 percent in 2000—its status as a host country for foreign firms has grown immensely over the last generation.

Although much of this growth can be attributed directly to the processes of globalization itself, it is also a result of the dynamics of US trade and investment policies.

Although the United States has traditionally maintained liberal policies regarding inward foreign investment, in the 1980s two interrelated things happened: the US dollar appreciated relative to other major currencies, and US trade policy became somewhat more restrictive.<sup>xxxv</sup> As a result, foreign investors gained major new incentives to build factories and acquire US affiliates, as the value of dollar assets grew and trade restrictions made US-based production and distribution a better way to sell to US consumers than exporting from their home country. By the late 1980s this capital inflow—and the US shift from creditor to debtor country status—generated political concerns in Congress, as renowned properties such as Universal Studios and Rockefeller Center were acquired by foreign (in these cases, Japanese) firms. Although this form of ‘globophobia’ waned during the go-go 1990s, political and national security concerns—as in the post-9/11 cases of a Chinese bid to acquire the US energy firm Conoco, and Dubai Ports World’s jilted bid for various US port operations—occasionally interject themselves into the US government’s otherwise liberal approach to inward foreign direct investment.

How does this inward foreign investment affect the prospects for US employment and its overall economic health? Like Gup, Meckstroth is sanguine about the growing presence of foreign firms in the United States. Consistent with his position on outward investment, Meckstroth argues that the growing presence of foreign multinationals has been a boon to the US economy, helping to maintain relatively high levels of employment in industrial sectors such as automobiles, with firms like Toyota building plants in the United States to serve the American market directly.

However, other authors offer notes of caution. Barbara Parker agrees that the United States remains an attractive locale for foreign investment, but suggests that

foreign firms bring with them business practices that are not necessarily consistent with the US ‘social contract’ between firms and their workers. Following Parker’s lead, we therefore address inward investment in the context of the ‘socioeconomic dimension’ of globalization’s effects on US business and the economy.

#### **IV. THE SOCIOECONOMIC DIMENSION: GLOBALIZATION AND SOCIAL BARGAINS AMONG BUSINESS, LABOR, AND THE STATE**

Our authors also consider the impact of globalization on the roles of firms, unions, and the national government in providing (or not) the collective benefits and entitlements associated with the welfare state and social security. Although we cannot address the voluminous comparative political economy literature on this question within the confines of this chapter, it is useful to begin with a very brief note on how the United States differs from European countries in particular on this front.<sup>x1</sup>

While the state emerged with a central role in assuring most if not all aspects of social security in European countries, over the course of the twentieth century the United States took a different path to providing (often less generous) social security that privileged the role of ‘society’ (business and unions) and relegated the state to a smaller, less central role. A significant portion of the benefits US workers gained during the twentieth century were due not merely to the intervention of the state (a la the New Deal), but rather to the mobilization of labor unions and their capacity to win concessions on issues such as healthcare, pensions, and job security from their employers. These advances for workers were greatest in manufacturing industries with strong unions—meaning that (1) workers in other sectors of the economy have always had only the

state's thin social safety net to fall back on, and (2) the 'thicker' social safety net enjoyed by manufacturing workers was largely dependent on a stable balance of power between firms and their employees.

This history is important for our purposes because globalization may affect the US social bargain more profoundly than it does in Europe and other countries where the state has a primary role. In these other countries, globalization may challenge the welfare state by making Keynesian demand management less effective or placing constraints on the capacity of national governments to maintain a large budget deficit or public debt.<sup>xlii</sup> These conditions hold true for the United States as well. But what globalization also does to the United States is to call into question elements of the socioeconomic bargains that have rested on *the nature of production*—i.e., on a set of relationships between capital and labor that were geared toward production and consumption in a *national* economy.

As long as US firms faced limited foreign competition and their operations were confined primarily to the United States, they had an incentive to cooperate with both unions and the federal government to provide collective goods that upheld both social security and consumers' purchasing power. But as 'American companies' like General Motors become 'US-based multinational firms' competing in the United States and abroad with foreign-based multinationals, and as employment and union membership rates decline in manufacturing industries, the pillars of the existing bargain continue to crumble. There is a mismatch between US-based firms' global operations and the legacy of their national obligations, and it is far from clear that the realities of global competition will permit a new bargain to be struck that is satisfactory both for these firms and their workers.

Similar to others cited previously in the comparative political economy literature, Hytrek depicts the shifts in the US economy associated with globalization—from a national to a global economy, from (closed) Keynesianism to post-Keynesianism, and from industrial to post-industrial—as related to a shift from ‘Fordist’ to ‘Gatesist’ modes of production, named after their progenitors Henry Ford and Bill Gates. The Fordist era, which prevailed from the early-mid 1900s until the 1980s or so, had several key characteristics: standardized modes of production (e.g., the assembly line), prominent manufacturing firms, strong unions, and stable and predictable relationships between firms and their employees. According to Hytrek, globalization has empowered the owners of capital and undermined unions, ushering in a Gatesist model of production in which “flexibility, innovation, and risk rule the day.” The consequence is thus that workers bear a greater share of the social risk of economic activity: with weaker unions unable to protect them and a government in thrall to neoliberal ideology, American workers bear the brunt of the greater global competition and employment insecurity that are associated with globalization.

Berberoglu, for his part, is most troubled by what he perceives to be globalization’s role in the declining power of labor vis-à-vis capital in the United States. He argues that globalization has increased the political and economic power of capital—an observation consistent with several other authors in this volume—which ensures that the globalization of production will continue and workers will continue to suffer as a result of this process. Berberoglu provides a surfeit of data to support his contention, shared by Hytrek, that workers and already-disadvantaged social groups in the United States are losing out from globalization, though he ultimately concludes on what he

considers to be a more positive note. He suggests that the rise of the antiglobalization movement, and the growing transnational mobilization of labor unions therein, offer hope that the imbalance of power between capital and labor will be redressed at the global level.<sup>xlv</sup>

From a standpoint less overtly critical of the operations and choices of US-based businesses, Parker considers how the shift in the scale of business and economic activity from the national to the global level affects the nature of what she calls the US ‘social contract.’ She argues that as firms shift their operational worldview from the national to the global level, they necessarily become less responsive to the specific social context of *any* country in which they operate. As such, multinational firms are (perhaps unwitting) proponents of transnational harmonization of business practices and employer-employee relationships—a harmonization that is not necessarily in the direction of (Fordist) American practices. The result for the United States, Parker suggests, is not very edifying: more work, less job security, less worker-firm mutual loyalty, and greater disparities in pay both in general and by race and gender.

### **The state and an emerging social bargain?**

As noted earlier, the US government has traditionally taken a less active role in intervening into markets to provide social goods than in some other peer countries. There is a great deal of interest today in the United States and internationally in encouraging ‘corporate social responsibility’ (CSR)—i.e., firms’ sensitivity to the negative externalities their operations sometimes produce, such as environmental degradation or social inequalities. This focus on CSR starts from an acknowledgement of the central role

of business in the US social bargain, and encourages firms to once again acknowledge this role by voluntarily committing to change their practices to be consistent with certain social goals or provide resources to redress the problems their activities create.<sup>xlvii</sup> Yet the CSR movement is a global one; as Parker notes, US firms now typically think in global terms, and whatever social commitments they take on will reflect these global operations—and thus not necessarily pay specific attention to the particular needs of Americans.

Despite its relative reticence, the US government has always had a central role in upholding the country's social bargains. If anything, this role may become more important as the nature of production undermines business's social role in the *national* context. Ongoing questions regarding the future of Americans' healthcare and pensions aren't just a concern for workers—they're a concern for business, as well. Because American firms rather than the state have taken a lead role in providing these social goods, they are often saddled with costs that their foreign competitors do not face. For example, for every automobile produced by General Motors in 2006, more than \$1600 of the final price reflects current and retired autoworkers' healthcare costs.<sup>xlviii</sup> So, if the US government faces the prospect of US-based firms offshoring production (or simply laying off workers) to avoid these social costs, it may face pressure to consider more seriously the merits of a national healthcare system that would both reduce these direct costs for firms and help cover workers who moved jobs more frequently in an era of heightened churn.

Contributors to this volume make a number of suggestions regarding policies that the federal government can undertake to both enhance US businesses' competitiveness

and to strengthen social protections for all Americans in an age of globalization. Some of these policy prescriptions are broad and sweeping, while others are more targeted to particular sectors. On the broader side, authors such as Berberoglu and Hytrek promote forceful state intervention into markets and firm activities to redistribute income and to strengthen the country's social safety net. Jaffee, who argues that pessimists overstate the negatives and understate the positives associated with globalization, wants the US government to *not* fiddle with what he sees to be American strengths—such as a spirit of entrepreneurialism and minimal government intervention directly into markets. But he does propose more targeted measures such as additional trade adjustment assistance and worker retraining to help individuals cope with churn and its attendant job insecurity. Some make similar suggestions, such as portable health insurance and wage insurance, to reduce the effects of insecurity, while others propose greater investment in education and skills training to prepare Americans to compete within the global economy. Indeed, most of the authors prescribe policies that start from the premise that globalization is here to stay, and that the US government's role is not to control markets or production networks but rather to permit them to operate according to their own logic and to intervene *socially* to protect and empower individuals and groups hurt or disadvantaged by these global production processes.

Within an understanding of the traditional US social bargains, this seems to be an approach distinct from either a semi-interventionist New Deal model or a purely laissez-faire neoliberal model. The emerging model does not involve much direct state intervention into markets and production in order to create work or impose restrictions on business practices (as in the New Deal). But it also acknowledges that a production-based

national social bargain may be unsustainable in a global economy, and that certain social goods that businesses provided to their workers in response to labor mobilization—most importantly, healthcare and pensions—should be decoupled from business and perhaps be brought into the public sector.

Such a bargain would seem to go against the grain of moves over the past generation to ‘privatize’ the provision of social goods typically provided by the public sector—such as public schools, Social Security, and faith-based charities. And there is no reason to believe that, once the state took over provision of healthcare and pensions it would not immediately re-privatize their provision to other sectors of society. Nevertheless, the point remains that there is a fundamental disjuncture between the provision of national social goods and the global operations of US-based businesses, and that the prior social bargain appears unsustainable within this new context.

## **V. CONCLUSION**

This chapter has introduced the central topics and arguments about globalization’s impact on American business and the economy that the following chapters will discuss in detail. We have confined ourselves to the effects of what we call economic globalization, or “networks of economic interdependence,” which include networks of people (migration), networks of finance (banking), and networks of trade and production. The authors here discuss the effects of each of these networks on the availability of jobs and the composition of employment in the United States, and the competitiveness of US business and of the economy as a whole. They are also concerned with the impact of globalization

on what we call the socioeconomic bargain, the social safety net built by business, unions, and the government to protect American citizens from the vagaries of the market.

In the chapters that follow, the authors do not always agree on the effects of globalization on business and the American economy. The issues they raise, however, and the evidence they marshal, clarify the terms of the globalization debate in the United States today. Their empirical examinations of globalization's impact on the key issues of that debate provides the nuance that is sorely needed to deepen and enhance the discussion.

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- i. OECD Factbook 2007, available online at [www.swivel.com](http://www.swivel.com) (accessed January 14, 2008).
  - ii. The literature on the debate over the merits of globalization is too large and varied to provide a fully representative list of citations here. Among globalization's prominent supporters and defenders are Thomas Friedman and Jagdish Bhagwati. See Friedman, *The Lexus and the Olive Tree*. New York: Farrar, Straus, and Giroux, 1999; Friedman, *The World Is Flat*. New York: Penguin, 2004; and Bhagwati, *In Defense of Globalization*. New York: Oxford, 2004. For a range of critical statements on various aspects of globalization, see Dani Rodrik, *Has Globalization Gone Too Far?* Washington, DC: Institute for International Economics, 1997; Joseph Stiglitz, *Globalization and Its Discontents*. New York: W.W. Norton, 2003; and John Cavanaugh and Jerry Mander, eds., *Alternatives to Economic Globalization*. San Francisco: Berrett-Koehler Publishers, 2004.
  - iii. John Harwood, "Republicans grow skeptical on free trade," *The Wall Street Journal*, October 4, 2007.
  - iv. *The Economist*, "Buying off the opposition," November 10, 2007.
  - v. Joseph S. Nye Jr., *The Paradox of American Power*. New York: Oxford University Press, 2002: 83.
  - vi. Michael Pollen, *In Defense of Food: An Eater's Manifesto*. New York: Penguin Press, 2008.
  - vii. It is difficult to pinpoint exactly how large the nontradable sector is within the broader US economy. It surely accounts for a smaller proportion of US *production* than it does of US *consumption*, because nontradables are produced only for American consumers while tradable goods and services are produced

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for both the US and international markets. Dotsey and Duarte suggest that the nontradable sector accounts for roughly 40 percent of US consumption, with retail accounting for half that figure. Michael Dotsey and Margarida Duarte, “Nontraded goods, market segmentation, and exchange rates.” Federal Reserve Bank of Philadelphia Working Paper No. 06-9 (May 2006).

viii. Although there are many factors responsible for declining employment in certain US sectors, there has been a celebrated debate between Lester Thurow and Paul Krugman as to whether international trade or technological change is primarily to blame. (Thurow blames trade; Krugman blames technology.) See among others Lester Thurow, *Head to Head: The Coming Economic Battle among Japan, Europe and America*. New York: William Morrow, 1992; and Paul Krugman, *Pop Internationalism*. Cambridge: MIT Press, 1996.

ix. Value added is the estimated value that is added to a product or material at each stage of its manufacture or distribution.

x. Michael Borrus and John Zysman have argued that nations that produce, for example, oil, timber, and agricultural exports have less potential for economic growth than those that produce capital and knowledge-intensive goods and services such as advanced components, design software, and financial services. See Michael Borrus and John Zysman, “Industrial competitiveness and American national security.” *Berkeley Roundtable on the International Economy*. Working Paper 39, 1991.

xi. Source: Piyabha Kongsamut, Sergio Rebelo, and Danyang Xie, “Beyond balanced growth.” *Review of Economic Studies* 68 (2001): 869-882. Note: figures are estimates.

xii. We use the term ‘competitive advantage’ here to indicate that a country’s productive advantages may not all be ‘natural’ in the sense that the concept of comparative advantage assumes—i.e., based on a country’s particular resource endowments or specialized skills. Rather, a country’s firms or workers may attain a *competitive* advantage as a result of government intervention to subsidize or protect them. In the 1980s and early 1990s, in the context of competition from Japanese and European firms and their governments’ manifest support for their them, there was a debate within the United States about whether the government should pursue an industrial policy—i.e., provide government support (protection and/or subsidies) to sectors with high levels of value-added. Much of the debate centered on whether the government was capable of ‘picking winners,’ with many liberal economists voicing their skepticism. This

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debate centered on 'strategic trade theory,' which was developed largely by Paul Krugman. See Elhanan Helpman and Paul Krugman, *Market Structure and Foreign Trade*. Cambridge: MIT Press, 1985; and Krugman, *Strategic Trade Policy and the New International Economics*. Cambridge: MIT Press, 1986.

xiii. Jeffrey A. Hart and Aseem Prakash, eds., *Responding to Globalization*. London: Routledge, 2000.

xiv. Because all children born in the United States to immigrants are by definition natives, the sole reason for the dramatic increase in the immigrant population is new immigration. While some immigrants die and others return home, the issuance of 800,000 to one million permanent residency visas annually and the settlement of hundreds of thousands of illegal aliens each year greatly exceeds deaths and out-migration. See: Center for Immigration Studies, <http://www.cis.org/articles/index.html#backgrounders>.

xvii. Peter Andraes, "The escalation of US immigration control in the post-NAFTA era." *Political Science Quarterly* 113, 4 (1999): 591-615.

xviii. United States Department of Justice Budget Summary, Immigration and Nationalization Service FY 2003 [http://www.usdoj.gov/jmd/budgetsummary/btd/1975\\_2002/2002/html/page104-108.htm](http://www.usdoj.gov/jmd/budgetsummary/btd/1975_2002/2002/html/page104-108.htm).

xix. In 2005, Loizillon tells us, "Twenty-nine percent of the foreign-born lived in poverty, compared to 21 percent of the native-born." Furthermore, 34 percent of immigrants lack health insurance, compared to 13 percent of natives. Indeed, immigrants and their US-born children account for 71 percent of the increase in the uninsured since 1989. And the proportion of immigrant-headed households using at least one major welfare program is 33 percent, compared to 19 percent for native households. Stephen A. Camarota, "Immigrants in the United States 2007: A profile of America's foreign born population." Center for Immigration Studies. November 2007.

xx. Of immigrant households, 82 percent have at least one worker compared to 73 percent of native households. See Camarota 2007.

xxi. Raymond Vernon, "International investment and international trade in the product cycle." *Quarterly Journal of Economics* 80, 2 (1966): 190-207.

xxii. Friedman 2004.

xxiii. In this sense, one might say that firms are internalizing the logic of comparative advantage by sourcing more aspects of both their production processes and even administration externally via markets rather than internally within the firm. Globalization and technological change have lowered the transaction

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costs associated with external sourcing, undercutting somewhat the rationale of firms' hierarchical organization as understood by Ronald Coase in his seminal article, "The nature of the firm." *Economica* 4, 16 (November 1937): 386-405.

xxiv. Robert Keohane and Helen Milner make this point by referring to 'internationalization' rather than 'globalization.' See Robert Keohane and Helen Milner, "Internationalization and domestic politics: An introduction." In *Internationalization and Domestic Politics*, edited by Keohane and Milner. New York: Cambridge University Press, 1996.

xxv. UNCTAD, "World investment report 2006," available at [unctad.org](http://unctad.org).

xxvi. Robert Gilpin takes a somewhat similar approach, arguing that US multinationals' expansion abroad was closely connected to US global hegemony in the early postwar period. Unlike Berberoglu, however, Gilpin argues that these MNEs often work independently of and counter to US national interests. Robert Gilpin, *US Power and the Multinational Corporation*. New York: Basic Books, 1975.

xxvii. See Matthew J. Slaughter, "Globalization and employment by US multinationals: A framework and facts." International Tax Policy Forum, "Domestic Effects of Foreign Direct Investment," American Enterprise Institute Seminar (December 2, 2004): 3.

xxviii. Claims that the United States is 'losing' jobs to offshoring and foreign outsourcing often suffer from the 'lump of labor' fallacy: there is not a fixed number of jobs in the world, so a job gained in India does not equal a job lost in the United States.

xxix. On exit as a strategy of political influence, see Albert O. Hirschman, *Exit, Voice, and Loyalty: Responses to Decline in Firms, Organizations, and States*. Cambridge, MA: Harvard University Press, 1970.

xxxi. Ram Mudambi and John Cantwell have also suggested that although the most specialized and hi-tech work remains within the United States, firms are increasingly routinizing the less complex tasks of R&D and locating those tasks in foreign affiliates. See Ram Mudambi and John A. Cantwell, "The geography of knowledge sourcing by multinational enterprises" (forthcoming).

xxxiii. This does not mean that the United States had not previously been a host country for investment from foreign firms. In the nineteenth century, the United States was a major net capital importer,

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particularly from Britain—whose investors were a major source of capital for the extension of the US national railroads and other privately funded infrastructure projects.

xxxiv. UNCTAD, “World investment report 2006,” available at [unctad.org](http://unctad.org).

xxxv. In the early 1980s the rise of the US dollar also contributed to the inflow of capital, though the dollar’s relative strength vis-à-vis other major currencies declined after the Plaza Agreement in 1985.

xl. Among the most prominent works in the comparative literature on countries’ socioeconomic bargains—including the ‘varieties of capitalism,’ Keynesian economic policies, and ‘Fordist’ and ‘post-Fordist’ modes of production—include Peter Gourevitch, *Politics in Hard Times*. Ithaca: Cornell University Press, 1986; Peter Hall, ed., *The Political Power of Economic Ideas*. Princeton: Princeton University Press, 1989; Gøsta Esping-Andersen, *The Three Worlds of Welfare Capitalism*. Cambridge: Polity Press, 1990; Peter Hall and David Soskice, eds., *Varieties of Capitalism*. Oxford: Oxford University Press, 2001; and Herbert Kitschelt et al., eds., *Continuity and Change in Contemporary Capitalism*. New York: Cambridge University Press, 1999.

xli. See among others Hall 1989 and Elayna Mosley, “Room to move: International financial markets and national welfare states.” *International Organization* 54, 4 (2000): 737-773.

xlvi. Others have argued that labor unions are far more accommodating to globalization and the international institutions that help sustain it; see Marcus Noland, “Learning to love the WTO.” *Foreign Affairs* 78, 5: 78-92; and Edward A. Fogarty, “Nothing succeeds like access? International NGO strategies toward multilateral institutions.” Paper presented at the American Political Science Association annual Conference, Chicago, IL (September 2007).

xlvii. Although the transnational CSR movement and its manifestation in the United Nations-sponsored Global Compact have prominent academic supporters such as John Ruggie, former US Labor Secretary Robert Reich has sounded a note of caution. Reich believes the CSR movement wrongly focuses on firms as the providers of collective social goods, whereas he believes this should be the role of the state (in the United States and elsewhere). See John Gerard Ruggie, “Taking embedded liberalism global: The corporate connection.” In *Taming Globalization: Frontiers of Governance*, edited by David Held and Mathias Koenig-Archibugi. Cambridge: Polity Press, 2003; and Robert Reich, *Supercapitalism*. New York: Knopf, 2007.

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xlvi. Alex Taylor III, "Behind Ford's scary \$12.7 billion loss," *Fortune*, January 26, 2007.