

Talk at American University on Tuesday, 3/30/04 By Dr. Robert Myers

**The Impact of Globalization, Monopolies & Technical
Change on Employment & Earnings**

*Organization of Talk. For about one-half hour I will discuss four topics and tools of analysis and answer questions I raise about them (**Items I-V below**). I'll bring in the role of the World Bank and IMF when relevant, if I remember. Following that there will be a relatively long **Question Period**, during which you **MUST ASK QUESTIONS**.

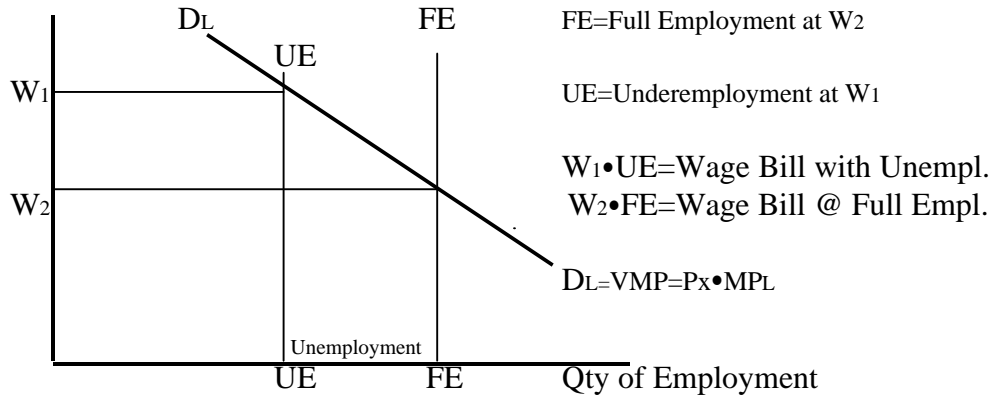
** In this talk I want to make the following points.

1. Globalization is bad (employment and wage reducing) if it doesn't increase competition (if economies are monopolized, i.e., restricted investor entry) or if the cost of capital (the interest rate) is too low.
2. Globalization good (constant wages, greater employment) if it increases competition and investment opportunities (unrestricted investor entry) & capital is not too cheap. Outsourcing creates jobs.
3. Globalization & greater competition increase income uncertainty and require more HH savings and income insurance.
4. Technical change is employment and wage reducing if it is LABOR SAVING (replaces labor with capital). HOWEVER, tech change causes greater GDP (income) growth. It is frequently accompanied with greater income disparities.
5. Since 1997 cost of capital (prevailing interest rate) is too low compared to labor (cost of labor too high), so that capital and technical change are labor-saving. Must tax capital to raise its price relative to labor.
6. Labor unions must push for higher interest rates (cost of capital) and more labor ownership of capital and technical change. (More ownership of intellectual property and/or fewer patents)

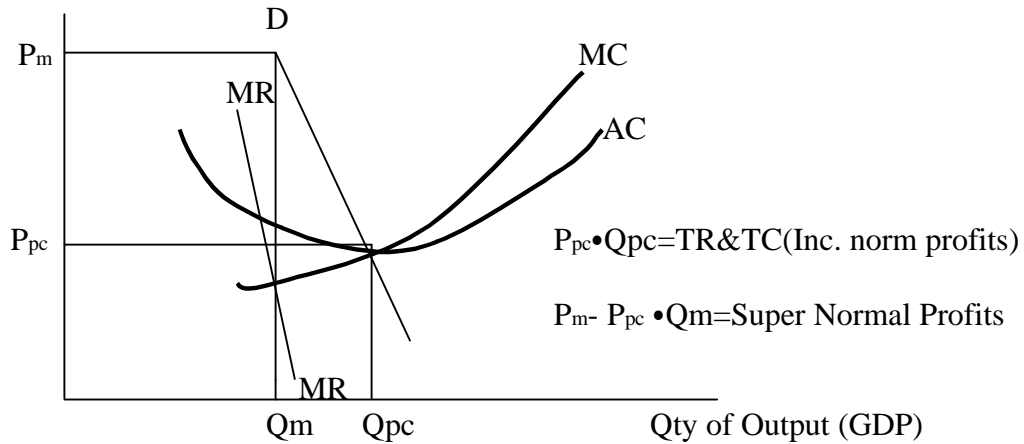
- I. Empirical Data on **WAGES & EMPLOYMENT** (From US, but generally appl.)
- a. Labor's & Capital's shares approximately constant at 70% and 30% of National Income BUT within labor's share, Higher Skilled labor's (HSL) share risen in fits and starts (varies with changes in supply of college graduates) while Unskilled Labor's share has fallen steadily. (Labor unions tend to raise wage & lower empl. By transferring monopoly profits).
 - b. Interesting speculation: Has the distribution of capitalist's income changed, and if so, how? (My guess this distribution is affected by monopolization & political connections and is becoming more UNEVEN).
 - c. Earnings Security and the Concept of Expected Value of Income
If there is a 0.5 probability that you are going to going to earn an income of \$100,000 next year, the expected value of this income is $0.5(100,000) = \$50,000$. Add each year's to get total EVI. How does, e.g., freer trade affect households' probabilities of earning income? It lowers them and the Expected Values of Income (EVI's).
 - d. Do the WB & IMF pay attention any more than lip service to these? NO. IFIs don't back labor unions & advocate policies that increase returns to capital. Note the emphasis on **POLICIES** and **ACTIONS** (not statements and intentions).

II. Analytic tools for Wage & employment determination under PERFECT COMPETITION vs. MONOPOLY

A. Figure 1: The wage & employment determination graph (assumes perfect competition)



B. Figure 2: The graph of perfect competition vs. monopoly



III. What is GLOBALIZATION?

It is either:

- a. Freer Competition (freer trade). It increases competition/participation in the investment/production/trade process.
- b. Fair or negotiated trade. That is, it is like expansion of trade between Monopolies. Fair trade maintains monopolization and protects existing (special) interests: e.g., Australia and agriculture.

IV. Impact of TECHNICAL CHANGE on Wages and Employment

- a. Labor Saving vs. Capital Saving & role of relative prices of L & K
- b. Are interest rates and the price of capital too low? (World Bank & IMF)
- c. The Role of Competition and Monopolies Statistically, innovation increases with competition, but most people believe that monopolies (patents, TRIPS)

V. IMPACT OF THESE ON EMPLOYMENT, INCOME AND WAGES**A. Questions about Figure 1 (The wage & employment determination graph)**

- i. Must wages fall to W to get full employment? (No increase Agg. Dem)?
- i. How do labor unions affect Figure 1? (W_1 & UE)
- ii. How Does Monopoly affect Figure 1? (See Figure 2)
- iii. How does technical change affect Figure 1.
- iv. Impact of increased competition on Income Security?
- v. Does perfect competition produce the investment and technical change needed for growth?

B. Questions About Figure 2 (The graph of perfect competition vs. monopoly)

- i. Impact of monopoly on Figure 1? (reduces employment compared to perfect competition)
- ii. Impact of Monopoly on income distribution (increases capital's share)
- iii. Monopoly increases income security for employed but with greater economic estrangement (alienation) from disenfranchised (unemployed labor and frustrated investors.)
- iv. Monopoly generates huge Super Normal Profits that can be invested for more growth and (MAYBE) more technical change.
- v. Walmart and monopsony.