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Globalization of labor markets and the growth prospects of nations☆

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1. The common thread

Over the last decade, a series of economic crises has erupted in different parts of the world, beginning with the sub-prime crisis in the United States, spilling over into a major financial recession between 2007 and 2009. This was soon overshadowed by the sovereign debt crisis in Europe, peaking in 2012 and persisting over the next years. Since 2014, a combination of forces, from the downswing in commodity prices, most notably of crude oil, to political instability, is beginning to cast a shadow over emerging economies, with growth slowing sharply in Latin America and more erratically in other continents. In short, this is heading to be, if not in terms of depth, certainly in terms of persistence and length, a global recession with few parallels in the past. What is also quite unusual about this "long recession" is that it seems to be a cluster of diverse and disparate crises that is prolonging this global slowdown. It is not evident that they have a common core.

☆ This is a revised version of my paper presented at the ASSA meetings in San Francisco, 4 January, 2016. The paper benefited from the participants in the roundtable discussion, Dale Jorgenson, Justin Lin, Dominick Salvatore, Michael Sanders and Joseph Stiglitz, and also from the several discussions I have had with Alaka Basu, Tito Cordella, David Rosenblatt, and Vivian Hon.
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It is the argument of this paper that this string of crises, as disparate as they may seem, may have shared foundations, which are converting the normal ups and downs of any economy into more major fluctuations with global ramifications and even political conflict.

There are some major shifts that have occurred over the last three or four decades beneath the surface of the world that are changing the ground rules of the global economy. The shifts are unobtrusive enough not to command much attention on their own, but they may well constitute an important common factor behind these many disparate crises, which are accentuating the small and natural fluctuations into global recessions.

The argument that is put forward here is admittedly speculative. It is sufficiently broad and overarching that it is not possible to provide a compelling case rooted in some firm method, such as a randomized control trial or a big data dissection. What it does is to garner a lot of smoking-gun evidence to make a case. The case is important enough and the manifestations immediate and dire enough that it would not be judicious to wait to have compelling evidence before beginning to design policy. The deep global shifts that I am referring to here have to do with technological change and resultant changes in the nature of global labor markets. These are deeper and more profound and transformational than most people acknowledge. The aim of this paper is to draw on evidence from diverse sources and shed light on the risks posed by these shifts in technology and labor relations and the new policy challenges that arise from them. While the elements of my analysis are drawn from other works and papers, it is hoped that the way in which these are brought together describes a new perspective on the current global situation and opens up new ways of thinking about this long recession and the kinds of out-of-the-box policy response that it may need.

The broad idea is simple. Technology and innovations have been on the march for a long time, creating new ways to release labor from tedious work, and increasing productivity.[1] From the first Stone Age tools, through the creation of basic instruments to hunt more easily and catch fish, the invention of ships that could travel long distances, the steam engine, the airplane, to the computer, the mobile phone, and the Internet. All these innovations have helped us to save on labor and get more with the use of the same amount of labor. An interesting direct indicator of this is the exponential growth of the industrial robot. The number of industrial robots sold worldwide in 2015 was 225,000; 27% higher than in 2014.[2] I point this out because the robot raises a challenging question about the shift in income from those who do labor to those who have the patent on the robot, those who own the robots, and those who own the shares in the company that owns the robots. This is the core of the political economy challenge arising from the march of this new technology that we have to contend with.

The pace of labor-saving technological innovations has, in all likelihood, increased in recent times. However, what is truly novel in recent times is the surge of innovations pertaining to digital technologies. These innovations save labor, but they do much more. They help labor to link up with demand in faraway places. It is possible now for large numbers of workers to sit in distant places, be it Bangalore, Manila, or Nairobi, and work for corporations located in London, New York, or Sydney, to serve consumers in yet other locations. The rise of this “labor-linking”

[1] Two recent World Development Reports (see World Bank, 2013, 2016) amass large amounts of data on, respectively, the changing nature of labor relations, and the march of technology, in particular, pertaining to the Internet and the digital domain.

[2] I point to some of these numbers and arguments in my Project Syndicate column, “The World Economy’s Labor Pains”: https://www.project-syndicate.org/commentary/labor-automation-slow-global-growth-by-kaushik-basu-2016-01?barrier=true.

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