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Globalization and workplace performance in Canada: Cross-sectional and dynamic analyses of productivity and wage outcomes

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Abstract

We start from the premise that firm productivity differences need to be taken into account in the examination of the determination of wages and, more broadly, earnings inequality. Unlike most sociological studies of globalization, in this study using Canadian data we incorporate direct measurement (of some aspects) of globalization, and examine closely the association between workplace productivity and wages on the one hand, and exporting, foreign ownership and outsourcing on the other. We conduct cross-sectional and dynamic analyses. We find the following: (i) there is a relationship between exporting and productivity across different model specifications; (ii) the effects on productivity kick in when a workplace is substantially rather than marginally engaged in export markets; (iii) productivity increases are markedly greater in workplaces where export intensity has increased in prior periods; (iv) productivity is higher in workplaces that are wholly foreign owned; (v) wages are also associated with productivity and with both exporting and foreign ownership.

Keywords: Globalization; Productivity; Earnings inequality; Exporting; Foreign ownership; Outsourcing

There is a large literature identifying pernicious economic effects of globalization. The move to liberalized trade, it is argued, has exposed rich country producers to poorer country competition (Wood, 1994). The flow of capital from less to more hospitable countries, or the threat of that flow, has encouraged wage concessions by both unionized and non-union employees (Harrison & Bluestone, 1988; Alderson & Nielsen, 2002). These trade and capital flows, in turn, are thought to have contributed to increases in income inequality. At the same time, capital is likely to define lower taxes as part of a hospitable environment so capital mobility, or the threat of it, leads to changes in government taxing and spending. This implies a retreat of the welfare state, including a reduction in the transfers that quite substantially offset market income inequality.[1]

This latter process – pressure on the welfare state in the form of a 'race to the bottom' in social policy – has attracted the most attention from sociologists and political scientists. For example, Brady, Seeleib-Kaiser, and Beckfield (2005) examined the relations between economic globalization and the welfare state in

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[1] Market income includes earnings, profits, dividends, and interest; everything except transfers.

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affluent democracies over the period 1975–2001. They found that net trade had risen over the period and that this rise was associated with a significant reduction in social welfare expenditures. These are important outcomes. But we know that in Canada, at least, the bulk of the increase in inequality originates in changes in market income rather than transfers (Statistics Canada, 2009). We also know that earnings make up the bulk of market income and that earnings inequality has risen in both the United States and Canada (Statistics Canada, 2008). This suggests that we ought to know more about the effects of globalization on earnings.

In what follows we argue that a necessary step in doing this is to introduce productivity into the analysis. The starting point of the paper is that attempts to construct theories and explanations of labor market outcomes without including productivity as *one* contributor will inevitably fail, but that is precisely what a significant amount of sociological writing on the labor market has attempted to do. In the next section we discuss the use of the concept of productivity in sociology and its measurement. In the data analysis section we present results estimating associations between aspects of globalization and productivity, and between aspects of globalization, productivity, and wages. In the last sections we discuss possible implications of our results for appraisals of the labor market effects of globalization.

1. The problem of productivity

Economic theory ties earnings to productivity. Other things being equal, people get paid more when the value of what they produce is higher. Over the long haul, productivity growth has provided the basis for rising wages and living standards (Baumol, 1986). Differences in pay between employees are explained by differences in their productivity and reflect different investments in employees' capacity to produce. This is the core idea of human capital theory.

1.1. Sociologists and productivity

Sociology, however, has had an equivocal relationship with the idea of productivity. That wages are related to productivity is assumed, usually tacitly, in research on wage disadvantage. The quantity of wage disadvantage of one group relative to another is estimated as the residual difference between groups, after controls for human capital. Group differences in earnings are partitioned into a component treated as legitimate – human capital, local labor market conditions – and a residual component which is both unexplained and illegitimate, and provides an estimate of the amount of wage disadvantage (England, 1992; Reitz, 2005; Li, 2001). Treating the human capital component as legitimate requires the assumption that productivity increases with it.

Despite this acceptance of core elements of human capital theory in the analysis and interpretation of earnings disadvantage the main current in sociological writings on labor markets either attacks or ignores explanations within which productivity differences are an element. So-called 'new structuralist' analyses rooted wage differentials in power rather than productivity. Berg (1971; see also Berg and Kalleberg, 2001, p. 17, pp. 181–182) challenged the idea that education increases productivity. It is more common to simply ignore the issue. The term does not appear in the index of Berg's (1981) *Sociological Perspectives on Labor Markets*. It barely appears in Berg and Kalleberg's (2001) *Sourcebook of Labor Markets*.[2] There is no entry on it in the *International Encyclopedia of Economic Sociology* (Beckert & Zafirovski, 2006). And in their discussion of the accomplishments of the International Sociological Association's RC28, which deals with various forms of stratification including earnings, Hout and DiPrete (2006) confine the use of the term to quantities of publication.

The case against productivity has two starting points. One is that it is difficult to measure. We address that issue at various points in the paper. The other is that we know that pay is associated with a set of institutions that, much of the time, are likely to be unrelated to productivity. Aage Sørensen (2000) used the concept of 'rents' to sketch out a general analysis of the effects of these institutions. Rents are income yielded by the control of assets that are sheltered to some degree or another from competition. Firms have several methods for generating them (tariff-seeking, lobbying, tax evasion; see Bhagwatti, 1982). Where firms increase revenues through competition-restriction employees may sometimes extract a share of those additional revenues. Entry restrictions imposed by unions and professional associations sometimes force wages up above competitive levels. Above the entry level, internal labor markets shelter employees from competition. Human capital is *sometimes* a source of rent: on-the-job training develops specific skills which shelter employees from external competition and educational requirements may, unwarrantedly, limit potential job applicants.

[2] Note that Berg (1981) and Berg and Kalleberg (2001) are edited collections. The first contains 13 chapters by 17 different authors. The second contains 27 chapters by 36 different authors.