



## Uncharted waters

In 1973 I hosted two former students from Japan. We spent an evening enjoying a New England lobster dinner at a neighborhood restaurant. While everyone at the restaurant was very cordial, there was a great deal of curiosity as to how two Japanese businessmen found their way to this small local eating establishment. This week, some 30 years later and in the same neighborhood, I took my family to lunch at a Japanese-owned sushi and tempura restaurant where many of the customers were visiting Japanese businessmen. I was struck by the transformation of this small town from an isolated backwater of Americana to a cog in America's global business efforts. This transformation is duplicated many times over in other small American towns, not only with businessmen, but also with an array of visiting professionals, workers, and students from all over the world. The amazing aspect to this is that so many Americans still deny that globalization is taking place on a very real and impressive scale. The inability of mainstream Americans to understand fully the impact of globalization on their lives is alarming because it leaves them unprepared to accept the challenges that globalization will surely bring.

One issue that perplexes Americans is job outsourcing. Globalization is considered the culprit behind America's "jobless recovery." The low wages paid in China, for example, have persuaded US companies to build factories there, thus taking away domestic jobs. Sensing the demise of the American worker, the influential labor union AFL-CIO has recently petitioned the US government to penalize the Chinese for abusive labor practices. Recent acquisitions by US conglomerates in India have created more angst among Americans. The Indian companies purchased, however, were already serving US companies with back-office, customer, and accounting services; the acquisitions only formalized the relationship. Jobs outsourced to India are lost to Americans whether these companies remain Indian or transfer to US ownership. But what impact has outsourcing really had on America's jobless recovery? Forrester Research estimated that of the 2.7 million jobs lost over the last three years, only 300,000 have been lost to outsourcing; whereas a one percentage point increase in productivity is estimated to have created a loss of 1.3 million jobs. Perhaps produc-

tivity enhancement is the fly in the ointment, not globalization. And if that is the case, what is the appropriate strategy to offset job loss? Alan Greenspan advises Americans to go back to school and retool to take advantage of the next wave in technology innovation.

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Americans also need to be reminded that globalization is a two-sided coin. American consumers have benefited greatly from the availability of low-priced goods from overseas. The competition from foreign-made goods has kept prices and inflation down. Without foreign financial support, the US could not run the huge deficits that Americans depend on for domestic and foreign policy initiatives, not to mention the quality of life enjoyed by many. Asian governments and investors hold some 25% of US Treasury securities. In the last quarter of 2003, about US\$84 billion in US corporate equity was purchased by foreign entities and over US\$600 billion was poured into US government debt over the past three years by foreign investors. Exports keep American factories humming, with one-fourth of those exports being shipped to Asia. Foreign companies in the USA also provide jobs to Americans. In Massachusetts, foreign-owned companies employ about 7% of the workforce and account for 220,800 jobs.

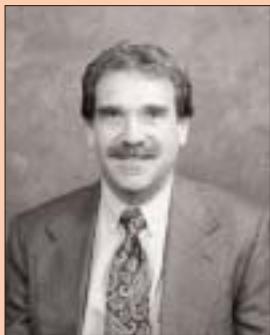
In addition to job loss, American workers have three additional concerns that reflect an uncertain future. First, real incomes for workers on the bottom half of the wage scale declined last year. Roughly 80% of nonfarm workers have witnessed a fall in real hourly wages over the past three years. Of the wealth being created in the USA, barely 50% goes to salaries and wages, representing a 50-year low. In other words, as America's wealth grows, mainly due to unprecedented productivity

growth, the rewards are being funneled to the top of the economic ladder. *BusinessWeek* reports that the top 10% of America's wealthy own 65% of the country's assets; the top 50% control 95% of the country's wealth.


Second, health care costs are soaring. The government is now pursuing a plan that will relieve corporations from paying health benefits to retirees once they become 65 years old. These retirees would then have to depend on government programs that many see as inadequate. Smaller companies are just not offering health benefits to employees. Since capital is cheap relative to labor, companies are depending on technology-led productivity increases rather than increased payrolls to meet demand.

Third, companies are grossly underfunding pension plans. Large corporations in particular have not invested sufficient funds to cover future pension obligations. The solution was a reformulation and reduction by the government of pension set-asides which assume better economic times will once again fill the pension coffers. The crux of the problem is that overly optimistic government thinking is becoming more transparent to an increasingly jaded working class, who see the glass as half empty rather than half full.

The technology revolution now underway is the soul of the globalization process. There were some early doubts about the impact and staying power of new Internet-based technologies, but those doubts have been erased by the proven profitability and productivity of businesses employing them. The openness and transnational character of current information technology challenges government control over information and the movement of goods and services. With ready access to information, individuals are empowered to make choices unencumbered by the powers-that-be. The process is both liberating and daunting. Never before have national boundaries meant so little. Companies are no longer American, German, Japanese, or Indian. They are global companies with global employees and global customers. Tech-savvy mom-and-pop stores in Asia can access American buyers instantaneously and vice versa. Medical techniques can be shared by doctors from the best medical schools



with “barefoot” doctors working in remote areas. Students from poor backgrounds in developing countries will be able to access the most advanced college curricula from schools like MIT. Technology will continue to lead us in directions unimaginable today.

The last decade of 19th century America offers interesting parallels to today. The US government was in dire economic straits, heavy immigration posed problems of assimilation, there was an increasing gap between rich and poor, foreign involvement challenged American values, and technology was supporting great strides in productivity. It was also a time when Americans fretted over the purposes and consequences of globalization. The world from the American perspective in the 1890s was a place of great promise, but at the same time a dangerous place; the future would be a voyage through uncharted waters. One hundred years later, the USA faces similar uncertainty. One comforting thought is the role that productivity will play in uplifting the global community, especially if social, economic, and gender equity are identified as productivity’s beneficiaries. 

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