

The Social Dialogue Model in a globalized world: Challenges and opportunities to Europe



Richard B. Freeman, The Fafo Conference 2007
Equality, diversity and inclusion: Challenges to the
Nordic models in the global economy, Feb 15, 2007

Harvard University and NBER
Centre for Economic Performance, LSE

This Talk

- I. THE GREAT CHALLENGE** is the trend to a truly global labor market with EU aging and relatively declining population.
- II. ANALYZING INSTITUTIONS WITH OPEN EYES** shows that adverse effect of inflexible institutions exaggerated
- III. THE GREAT OPPORTUNITY IS KNOWLEDGE SINGULARITY** with more minds, computer power working on problems than imaginable.
- IV. TOWARD STRONGER SOCIAL PARTNERSHIP?** Social partnership and inclusion – genuine dialogue with shared capitalism and grounding economies – offer fruitful way forward

I) GREAT CHALLENGE IS ADJUSTING TO TRULY GLOBAL MARKET

BASED ON

1. GREAT DOUBLING OF WORK FORCE:

Collapse of communism, India's turn from autarky, China's shift to market capitalism → global work force of 2.93 Billion people. (China added 0.76 B, India added 0.44 B, Ex-Soviet added 0.26 B)

Without those countries, global work force would be 1.460 Billion Persons (2000)

Since capital stock in those countries was modest, global capital/labor ratio dropped, shifting power to business, which can move to low cost locales.

2. EDUCATIONAL EXPANSION

Originally economists said these countries could not compete in good jobs/high tech. Not true, because they are producing large numbers of educated workers and technology spreads

3. DIGITALIZATION OF WORK

“the availability of high-speed, low-cost communications, coupled with the rise in high-level skills in developing countries meant offshoring has become an attractive option outside the manufacturing industry... "There is more to come. In theory, anything that does not demand physical contact with a customer can be outsourced to anywhere on the globe. For many UK businesses this presents new opportunities, for others it represents a serious threat. But welcome it or fear it, it is happening anyway, and we had better get used to it." (UK Institute of Directors)

Europe faces another problem: Demographic Diminution

Percentage of World Population (UN)

Region	1950	1995	2025	2050
Currently advanced countries	32.2%	20.6	15.2	12.4
Europe	21.7	12.8	8.7	6.8
Europe/Advanced Countries	67.4	62.1	57.2	54.8

Result is different problem than Standard view (“OECD/IMF/WORLD BANK”): Transition/Adjustment Problem

- 1) Greater market power to capital → increased inequality within countries;**
- 2) Growth of informal employment worldwide: In LDCs: Latin America, Africa, Asia; in advanced**
- 3) Long transition: ~ 50 yrs for China/India to reach “advanced level” incomes**

Danger of Policy “fighting the last war”; Overselling markets, free trade, capital mobility, deregulation; Ignoring immigration; distribution; ownership

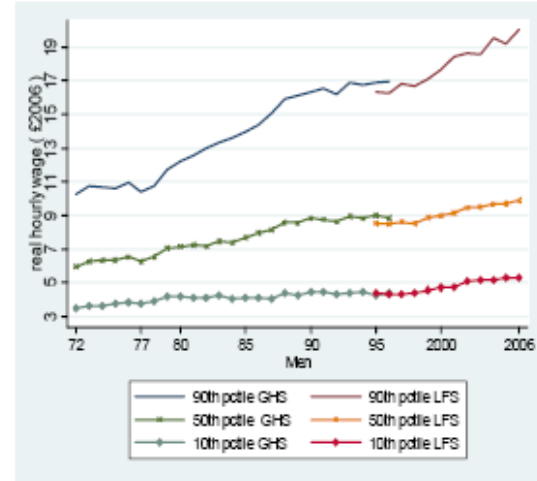
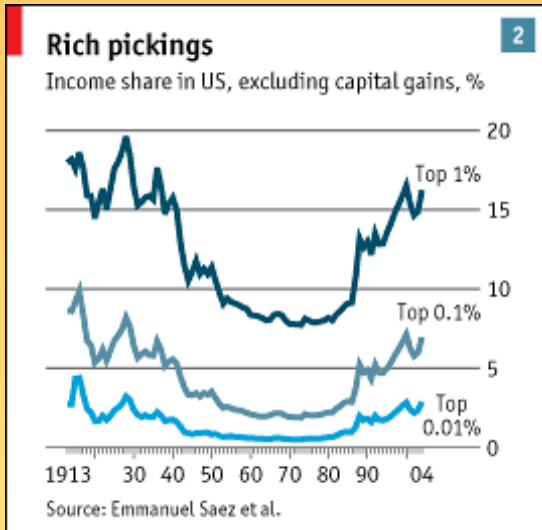
II) Open Eye Look at Orthodox Views



Orthodox conservative claim is that problem is protective labor legislation and social welfare state, so that solution is deregulation: increase flexibility of working time, wage/labor costs; weaken employment security, UI and related benefit systems; some active labor market policies – training, job-finding assistance, etc.

Orthodox left claim is that globalization → global dumping and road to bottom. Fear is that European Social Dialogue systems do not work, without global standards

ORTHODOX RECIPE: More Inequality



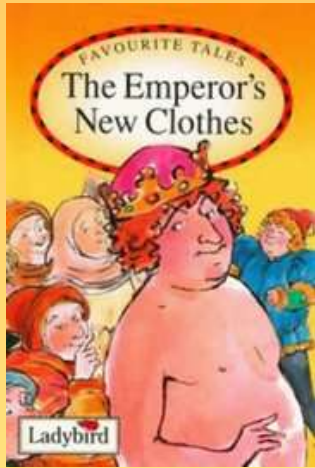
WE'RE HAPPY



WE'RE NOT



Evidence for orthodox view is fragile



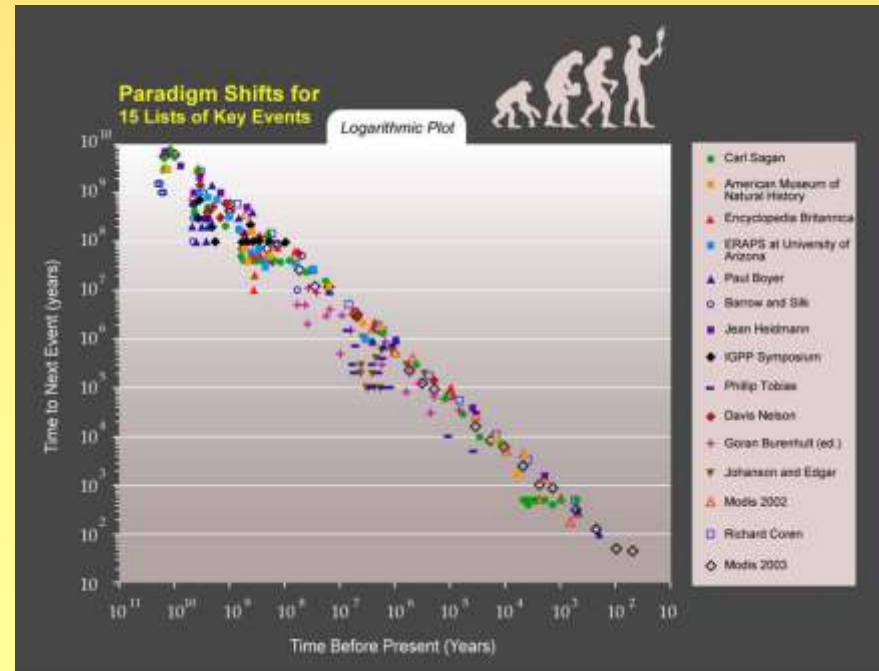
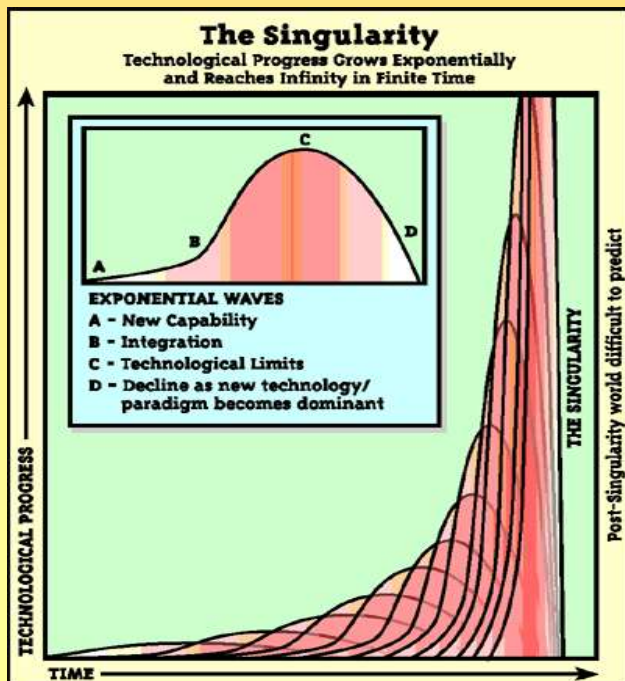
“the evidence of the role played by EPL on aggregate employment and unemployment rates remains mixed”; the *plausibility* of the Jobs Strategy diagnosis that excessively high aggregate wages and/or wage compression have been impediments” to jobs, but “this evidence is somewhat fragile”; the effect of CB seems “contingent upon other institutional and policy factors that need to be clarified to provide robust policy advice” (OECD, Employment Outlook, 2004)

2006 Economic Outlook notes that English-speaking and Nordic produce high employment; interactions needed Blanchard and Wolfers (2004) ; Lundquist and Sargent (2004). But Bassanini and Duval (2006; chapter 7 of OECD, 2006) estimate that *changes* in tax and labor policies explain about half of the 1982-2003 *changes* in unemployment among countries with taxes critical vs Baker et al (2006) and Baccaro, L and D. Rei (2005)

The cross-country aggregate data on which analysts focus is too weak to be decisive; more configurations/stories than observations; The result is excessive reliance on priors.

III) Singularity from huge science/ engineering/ college grad work force + computer + Internet?

Immense technological progress in brief period of time from: millions more brains working on science, engineering, business, etc issues +



Transition can go bad:

BAD TRANSITION

China, India develop enclave economies that use low paid “surplus labor” from agric so wages grow slowly; Global capital stock increases slowly → wages in advanced drop or stagnate until parity established;

Globalization → new protectionism;

GOOD TRANSITION

Rapid TC → reduced cost of goods, which dominates declining terms of trade; US retains some leading sectors through networks; local area agglomeration.

Large increase in K/L → higher wages in LDCs; fall in world poverty & inequality; World pressures for higher labor standards

IV) Can Dialogue Systems help make smooth transition?

Globalization – Immigration & tech not trade/capital

- 1. Immigration big -- 3% of world living in other country; 9% foreign-born in advanced countries... bit smaller than trade/capital flows**
- 2. Global wage inequality (incentive to immigrate):**
 - Big Mac price ratio top 20th to bottom 20th 1.9 to 1**
 - Cost of Capital top 25th to bottom 25th , 1.43 to 1**
 - Wage ratio top 20th to bottom 20th x rates, 8-16 to 1**
 - Wage ratio top 20th to bottom 20th ppp, 3-7 to 1**
- 3. Internal inequality in advanced and LDCs**

By limiting inequality: not more incentives for wealthy; and setting standards/helping LDCs European systems can help “good transition”

By investing in high tech, attract high-skill, and maintain retainable “sticky” industries – ground technology.

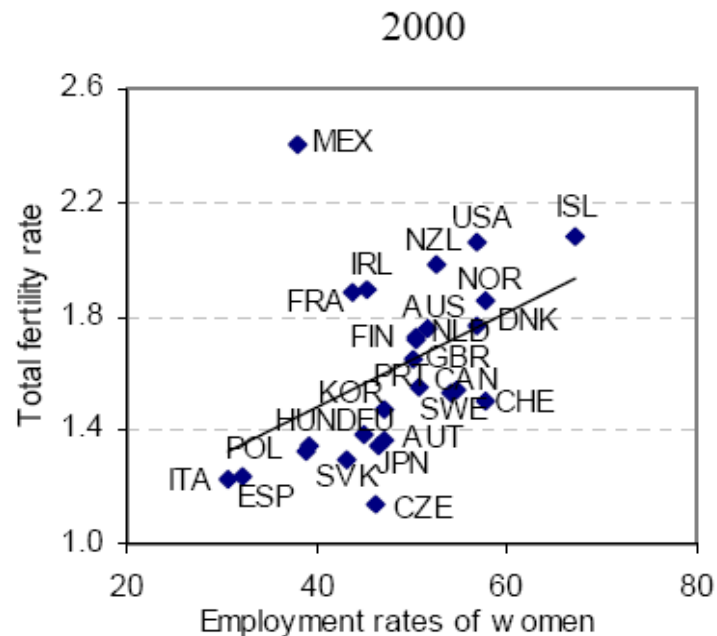
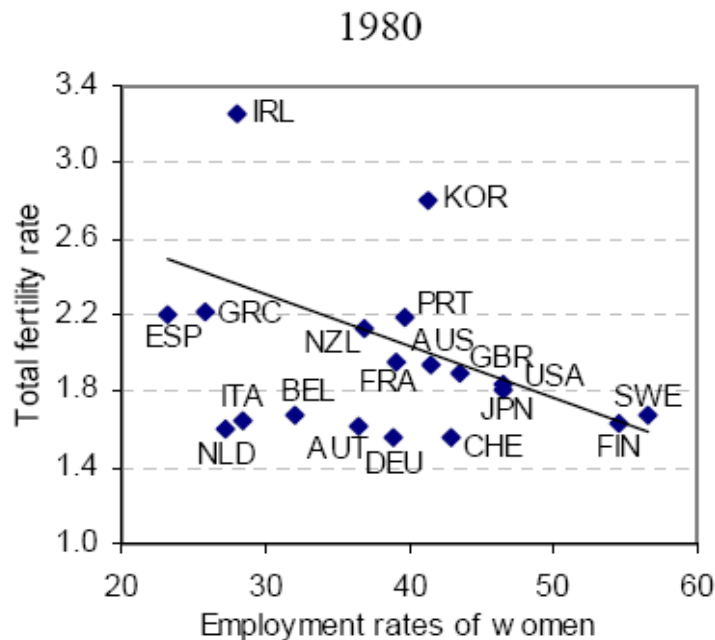
By Shared capitalism, where workers obtain share of returns to capital through: employee ownership, profit-sharing; individual/group options and share ownership; team production

By Family /liberez la femme policy?

Women getting more education + children → in work benefits; marketization of household; tax policies

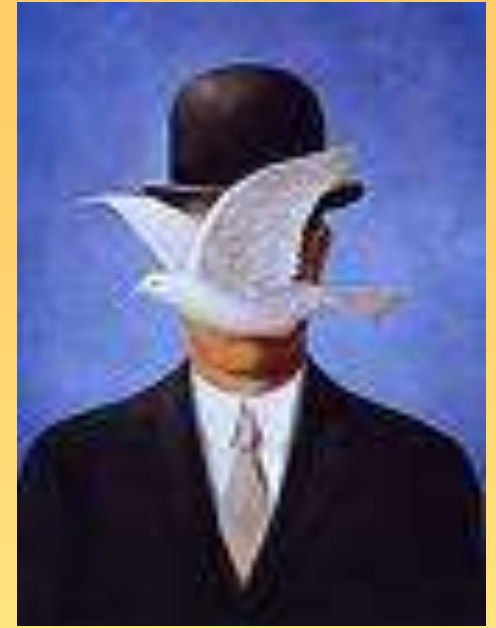
Remarkable link between women working/child-rearing – where both US and Nordics do well

Cross-country relation between female employment rates and total fertility rates, 1980 and 2000



***Transition needs real incomes increasing outside of
cb; greater social investments***

- 6. Prices more than wage bargaining: Rapid TC → reduced cost of goods; higher wages in LDCs; World pressures for higher labor standards**
- 7. Savings policies to increase global K/L – workers ownership via pension funds**
- 8. Greater “social wage” – parks, police, schools, national health care**
- 9. RD investment and Innovation: environment, energy, economics, health not Moon/Mars, military**
- 10. More cooperative links with large LDCs: Invest in health overseas**



“The Enemy of Good Economics is no longer Socialism/Communism/ Welfare State. It is inequality/failure to bad transition. The European social dialogue system can help ... if only the Brussel bureaucrats could do something beyond talk”