

LIVED EFFECTS OF THE CONTEMPORARY ECONOMY: GLOBALIZATION, INEQUALITY, AND CONSUMER SOCIETY

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INTRODUCTION

In casual conversation it has become commonplace to refer in a single breath to such seemingly diverse phenomena as globalization, increases in economic inequality, the decline of class-based culture, the intensification of consumerism, and global cultural homogenization. All of these seem to characterize our experience of the current era. Yet their connections remain obscure. There is little consensus about how significant the recent increases in income inequality are, and even less over their relationship to globalization. Beyond this, those who call attention to growing inequality have a difficult time explaining the lack of organized public discontent about it. Those who associate globalization with a loss of diversity, a deepening massification of Western culture, are at a loss to account for the stunning new variety and more rapid change in the outputs of knowledge-based capitalism.

It is difficult to confront these associations in any structured way, because they refer to phenomena analyzed in separate, specialized fields of academic expertise. Each such field documents a piece of the bigger picture, and as a result we remain unable to account for seemingly contradictory aspects of the contemporary experience.

If we analyze growing income inequality only through the distribution of income, for example, we cannot understand why people do not seem very upset about it. One of the key ways that the transformations of the contemporary economy make themselves felt in daily life is consumption and its cultural sphere, consumerism. Consumption and consumerism provide one way to understand the connections between what economists say about the economy and how the rest of us feel about it and the politics that we engage in about it. Many of the political dimensions of globalization – what is regretted, what is celebrated, what meets with passivity -- that seem contradictory when viewed either in exclusively cultural or solely economic terms can be understood as different material and institutional effects of the relationship between globalization and the evolution of consumer society. But beyond this, I shall argue, the rise of consumerist identities helps explain the economic process of globalization – notably the diffusion of labor-saving technologies -- which do not appear in standard economic approaches to the ways that globalization has changed the fates of many wage-earners.

The reasoning in this paper is predominantly economic, though elements from other disciplines are brought in as needed. Some of the arguments about inequality and its relationship to globalization are necessarily technical and rather detailed. I have made every effort to keep this to a minimum, but it is sometimes necessary in order to see the precise mechanisms that can link globalization and inequality and to situate our explanation within this well-developed literature.

PART ONE: INCOME INEQUALITY AND GLOBALIZATION

Increasing Inequality

Income inequality has increased in most of the major industrial countries over the last twenty years or so, which are also the period of greatest growth in world trade. The degree of inequality increase has some variation, highest in the USA and Britain, lower in most of the Continental economies, still lower in Scandinavia (Crafts, 1996; Johnson and Webb, 1993). Whether one measures it by the Gini coefficient or by the ratio of the income of the lowest 20% to that of the highest 20%, the trend is similar (Krugman, 1992; Krugman and Lawrence, 1993; Hanson and Harrison, 1994; Katz, Loveman and Blanchflower, 1995).

In virtually all the major developed economies, moreover, a major component of growth in income inequality is the extraordinary growth of income at the top. We can stylize the facts roughly as follows. The top 20% or so of the population has had very rapid growth in its real incomes and shares of total income. Within this group, the income share of the top 1 percent of US earners has more than doubled since 1979 (Frank and Cook, 1995). In 1979, the 95th percentile earner received 10 times as much as the 5th, but this ratio for 1995 was more than 25. As a consequence, the ranks of the rich and super-rich, both absolutely and proportionately, have grown considerably (Frank, 1999).

The middle 60% or so has also enjoyed growth in its real household incomes since the late 1970s, though it has been at a rate much lower than that of the top twenty.¹ In the 1990s, however, the results are quite different; the median household actually lost 2% of its income in real terms (Frank, 1999). There is considerable debate about the sources of middle-class incomes. Some claim that the

relative stability is solely due to the increasing presence of two-earner households.² Others, however, claim that it is because average wages have continued to rise in most countries, albeit at a much slower rate than for much of the previous post-war period. But it is indisputable that the *share* of this group in total income has declined. This means that a great deal of income has been foregone by its members, as opposed to how they would now be living had their share remained merely constant.

The bottom twenty percent seem to have a more complex story. Of this 20%, about 14% are in official poverty³ in places such as France or the USA. The poverty rate is slightly lower in Germany and the Nordic countries, and much higher in Britain (circa 22% at the present time). Except for Great Britain -- where it exploded under Thatcher -- the poverty rate in most countries has risen rather slightly, if at all, and is still well below its post-war peak, which was mostly attained in each country in the 1950s and 1960s (Jencks, 1993). Given that overall real income has been rising, it follows that at least some of the people in the bottom 20%, including some officially defined as poor, might also have had real income increases over the past twenty years. Yet about a third of the poor became more poor in absolute terms (5-10% of the population). This proportion is similar to that of the urban ghetto population. It helps explain how we could appear to have worsening poverty in spite of the overall statistics: there is a group suffering much harder and deeper poverty while most of the population has higher absolute real incomes, and some part of the poverty population is also better off in absolute terms (Jencks, 1993; Wilson, 1987). The general picture is a combination of decline and stagnation at the bottom, moderate growth and relative loss in the middle, and big growth at the top.

Wages and occupations: the Aglobalization@ hypothesis in economics

Explaining this inequality increase, however, turns out to be quite difficult. Some of the standard explanations for increasing income inequality attribute it directly to globalization. In economics, this involves seeking the relationships between trade in goods and services and its possible impacts on the domestic labor market in terms of labor demand and wages. Trade theory keeps its roots in Ricardo,⁴ by claiming that trade cannot affect domestic wages directly, but also does so through the domestic prices of imported goods.⁵ If imports come from an area with lower wages, then under competitive conditions their prices should decline. Either the domestic labor market meets the labor prices of the foreign country, or the domestic firms are pushed out of the market. In the more likely latter case, the workers released will have to find other things to do. They have certain fixed skills in the short-run and now they are in oversupply. Most of the literature considers the low-skilled manual manufacturing worker to belong to this category. This oversupply means that workers become unemployed and then often accept jobs at lower wages, because the above-mentioned price effects of trade create new and lower equilibrium prices for the products concerned. In other words, the effects of trade on relative domestic product prices are reflected in a new set of *inter-industry wage differentials*.

This process, known as the “factor price equalization” part of the process, is formalized in the “Stolper-Samuelson” extension of Heckscher-Ohlin trade theory: for a given kind of factor, trade gradually brings about a convergence of its prices to the world level. This would be a powerful force in favor of declining wages for low-skilled workers whose outputs can now be made in Third World countries. Key to these theories – as we shall see later on – is the notion that technologies of production are fixed. There is a fixed relationship between outputs of goods and inputs of factors, which implies a similarly fixed relationship between prices of goods and the wages of factors. In other

words, the US cannot use a different production function in the clothing industry than does Mexico.

What varies is where the factors are used and how location of industries affects domestic factor demands and prices.

But this is only the starting point for economists' reasoning about the possible effects of globalization on wages and incomes. Economics is concerned, above all, to understand more complex interactions between these sectoral labor market effects and the labor markets for other industries, their product prices, and their output levels. These are known as partial or general equilibrium approaches; they generally hold that a wealthy economy faced with import competition will move up the product chain, into more sophisticated intermediate and final goods and services. Clothing and shoe production may go offshore, but in return, the highly developed economy will make more high-tech and advanced services and export more of them. In the rich economy, then, there is a shift to different goods and to more of them, a global "filtering" of activities into a new geographical pattern.⁶ Labor demand shifts with this change in specialization. Initially, the shock of trade liberalization could lead to declining wages in import-sensitive sectors, and rising relative wages in export-oriented sectors.

For example, if the United States imported 10 additional children's toys, which could be produced by American workers, the effective supply of unskilled workers would increase by five (or alternatively, domestic demand for such workers would fall by five) compared with the alternative in which those 10 toys were produced domestically. This five-worker shift in the supply-demand balance would put pressure on unskilled wages to fall, causing those wages to fall in accord with the relevant elasticity. Any trade-balancing flow of exports would, contrarily, reduce the effective endowment of skilled workers (raise their demand) and thus increase their pay (Freeman, 1995, p 23).

Most general equilibrium theories predict a full absorption of labor initially displaced by imports.

Once this is achieved, there is no further change, a constant ratio of prices between import and export

sectors (Richardson, 1995). Ongoing trade under conditions of openness will not affect relative factor prices, because an economy in equilibrium moving from one endogenous state to another (along a given “production possibility frontier”) has no mechanism to change relative factor rewards.

Empirical research on the topic is quite difficult in terms of methods and data and it has turned up very mixed results (Bound and Johnson, 1992; Freeman, 1995; Nickell and Bell, 1995; Katz and Murphy, 1992; Katz, Loveman and Blanchflower, 1995).). In attempting to measure the factor content of imports to see if they are dominated by low-wage low-skill labor, economists have found very modest contributions to American income inequality (Lawrence and Slaughter, 1998; Borjas, Freeman and Katz, 1992). When the prices of imports are measured to see if they are falling relative to domestically-produced goods, the conclusion is that there is an effect but that it is rather small (Sachs and Schatz, 1994; Feenstra and Hanson, 1996).⁷ In contrast to these findings, Berman, Bound and Griliches (1992) find that the negative effect on unskilled wages applies to all sectors, not just import-heavy ones. All in all, Cline (1997), in an attempt to synthesize the evidence, suggests that somewhere between 5 % and 15% of the observed increase in inequality has to do with import competition from low-wage countries. Most estimates are that there has been about a 5% (maximum) reduction of unskilled labor demand in the USA from low-wage import substitutes, and manufactured imports from low-wage countries accounted for only 3% of American GDP in 1990 (Cline, 1997). This is concentrated in certain highly visible consumer sectors such as clothing. For these reasons, the mainstream view is that it is impossible for such a small tail to wag the large dog of developed country labor markets.

There are dissenters to this position, however. Wood (1994, 1995) claims that most of the

empirical research underestimates the equality-inducing effects of north-south trade, by up to a factor of four. This is rooted in different ways of calculating how much labor is displaced when production moves abroad. He goes on to claim that standard theory is wrong to consider that technology is fixed. A common reaction to low-wage competition, on the part of firms in developed countries, has been precisely to search for new methods of production that economize on unskilled labor. In so doing, Wood abandons a key element of standard general equilibrium models.

A few general equilibrium economists come to the same conclusion, but via a different route, holding that the sectors which expand as a result of trade should suck resources out of the rest of the economy, but the problem is that they still cannot absorb the large numbers of workers likely to be released by an initial opening to trade unless their wages fall (Leamer, 1994, 1995). This is a general equilibrium argument about powerful frictions in the economy, which then have multiplicative effects on how the exporting sectors adjust to their new circumstances. For example, the wealthier economy's sectors might substitute more labor for capital, because now they have a lot of cheap labor available to them, and this would tend to widen inter-sectoral productivity gaps.

Finally, Wood calls attention to the large probable impacts of traded services on unskilled wages, none of which are taken into account in the standard calculation, which are based only on manufacturing. All in all, Wood claims that a 20% decline in the demand for skilled labor could be accounted for by North-South trade, not the 5% in the standard approaches.

To return to the bigger picture of inequality, there are still other problems. While the efforts discussed above help us to understand the drop in relative wages at the very bottom, it does not explain what has happened to everyone else. Three additional issues can be signalled here. First, absolute

and relative incomes have grown so rapidly at the top of the distribution, not just the super-rich, but everyone with a college education as compared to those without.⁸ Yet, many of the “advanced product” sectors in which developed countries are coming to specialize in the face of trade, and which employ the college-educated, have occupational and wage compositions which are changing rapidly. There are indications that some of their jobs are being downskilled. More importantly, the supply of highly skilled labor (college educated) has expanded rapidly, and should have pushed down relative wages in these jobs. For the moment, however, this process cannot be detected statistically. Second, between the unskilled who are affected by Third World imports, and these highly skilled people, there would seem to be a vast middle ground of semi-skilled labor. There are many industries, or parts of industries, where semi-skilled labor is prominent, and these people seem to have lost out in the last couple decades. Indeed, most of the standard approaches would suggest that their wages should have risen with trade and relocation. This is because, in these kinds of industries (e.g. capital-intensive manufacturing of consumer durables), the assembly portions (using unskilled labor) have been relocated to Third World areas, but the “intermediate goods” portions remain largely in the developed countries. These intermediate or upstream parts of the industries now export more than they did previously. This should be reflected as a rising relative demand for labor and rising rewards in them.

Third, inter-occupational wage differentials are not the only ones which have changed. Even more dramatic is the shift of wages *within* occupational categories. In many occupations, the spread of wages has risen over the past decade, such that there has been an individualization of remunerations of people performing the same type of work, within the same firms (Gottschalk and Moffitt, 1992; Kramarz, Lolliver and Pele, 1994). It is unclear whether and how this could be related to globalization.

Technological change as the source of increasing inequality

Trade-based explanations for increasing inequality are generally set against the “technological change hypothesis,” which holds that it is automation and organizational change which shifts labor demand away from the less skilled and toward the more skilled, thereby widening the gap in their incomes. The idea here is that increasing inequality is the result of technological changes in certain parts of the economy, which favor demand for high-skilled workers and reduce demand for low-skilled workers. In the rising “intra-sectoral” skill-intensity argument (i.e. *factoral* or *occupational* rather than *sectoral* skill differences), the laws of supply and demand do the rest, so that low-skilled workers lose out even more in relative terms.

To put it again in slightly more technical terms, instead of seeing relative income changes as the result of a globalization-induced shock to relative *sectoral* output prices (and hence wages), it is seen as the result of variable rates of technological change between sectors. There are two versions of this story. The “empirical” version simply traces elasticities of labor demand. This “commonsensical” reasoning is rejected by most economists as insufficiently theoretical, and they turn to more complex equilibrium-based models of inter-sectoral adjustments for their explanation. These models rephrase the technology effect as differential rates of total factor productivity (TFP) between sectors, leading to durable differences in factor rewards (Richardson, 1995). Following this logic, in the *sectors* in which the advanced countries are coming to specialize (high technology manufacturing, capital goods, advanced services, high quality goods) skilled workers are experiencing increases in their factor rewards relative to unskilled workers, and sectors with high proportions of skilled workers are experiencing

increases relative to their sectors with a high proportion of unskilled.⁹ Most of the literature favors this general perspective, whether in its factoral or its sectoral version, over the trade-based (“globalization”) explanation of increasing inequality (as noted in the review by Freeman, 1995). But, as we saw above, certain observers such as Leamer(1994,95) and Wood (1994,95) see technological change and globalization as intimately related, a theme to which we shall return shortly.

The four “tiers” of globalization

I want to argue that neither the technological change hypothesis, nor the standard globalization hypothesis can fully explain increasing inequality; indeed, it is only by combining the two explanations, in order to think about the broad category of semi-skilled workers, not just unskilled, and by dealing with the effects of trade among developed countries, and not just between the North and the South, that certain causes of inequality can be understood. North-South trade is a drop in the bucket compared to trade among the developed countries (the latter is about 15% of the total, and the former more than 80%). This approach will in turn lead us to consider the role of consumerism in globalization and technological change.

Before we can see this, we first have to establish some broad brush images of the economy and its forms of globalization, around which we will build this alternative explanation of inequality.

At the top of the economy today are activities which are globalized because they are rooted in scarce, unevenly distributed skills. There are certain sectors where the highest quality products enjoy global markets. Due to the increasing reach of communications and infrastructure, the market is accessible to them at very low or zero marginal cost; alternatively the supply of this product or service is

extremely limited and there is no substitute, so that supplemental costs to market are no longer an issue. The high-powered corporate attorney, the film or television star, the internationally-known highly specialized doctor, are examples of this internationalization of labor services. In such markets, the providers of services have earnings levels which are very high relative to the average in those occupational categories, a phenomenon known as A winner-take-all markets (Frank and Cook, 1995). Though these individuals constitute a very small percentage of the total, their absolute numbers and absolute and relative earnings have been increasing rapidly in recent years. Winner-take-all markets are directly related to globalization: when a sports star, recording artist, international lawyer or top executive gets fabulous compensation, it is because her or his services now have worldwide markets. Some of the reshaping of the income distribution toward the top is a result of the winner-take-all phenomenon.¹⁰

A second part of this first tier of the economy also feeds the top end of the labor market. Most countries have certain sectors in which they specialize. They have high concentrations of certain industries.¹¹ This uneven geography of activity comes about because these activities depend on individual or collective skills which are unevenly supplied. Examples include aerospace (USA, UK, France), high-quality shoes (Italy), machine tools (Germany, Japan), Hollywood films (USA), specialized financial products (USA, UK), and civil engineering services (France, USA).¹² These sectors are generally more labor-intensive and higher-waged than the economy as a whole.¹³ The higher overall wages in these sectors, along with earnings of the winner-take-all class, drive the previously-mentioned college/non-college educated wage gap in those economies where the specializations industries are science- and engineering-intensive (like the United States, with its high-tech

and services orientation). The college/non-college educated gap is less important in places such as Italy, Germany, or Denmark, owing to medium-tech composition of these industries, and to educational skills needed to work in them. In these cases, it shows up as increasing inequality within manufacturing occupations (Hanson and Harrison, 1994; Maskell et.al, 1998). In spite of this, these world-serving industrial specialties are generally the “good” side of globalization for any country.

In the second part of the economy, we find the industries which can be relocated to low-skill, cheap labor areas, and which are therefore the focus of most anxiety about globalization. Average wages and income shares have been dropping for workers in these industries in the developed countries. But, as was noted, they probably account for no more than five percent of total labor demand in the rich economies and a maximum of 10-15% of the change in income shares (in the USA) or unemployment (in Europe). The industries concerned are generally the consumer nondurables (clothing, shoes), or the assembly phases of durable goods (electrical and electronic goods), where most of the intermediate goods are still produced in the richer nations. Stolper-Samuelson globalization appears to be directly present here.

The third group of industries consists of services that are partially- or completely non-tradeable. Fast food has to be prepared close to the point of consumption, so it cannot be off-shored; dry cleaning and car repair must be located close to the customer. So these activities are not going to be relocated to low-wage countries. Nonetheless, because their jobs have few educational requirements, and little tradition of unionization in many countries, they often pay very low wages. European countries have tried to raise their wages through minimum wage policy, but the principal effect of this has been to make them more automated than in the USA, and the jobs which remain are at the low end of the wage

spectrum. there is a puzzle as to why these workers' wages have declined. Is it due to increasing competition from low-skilled workers shed from the import-sensitive tradeable manufacturing sectors? Is it due to immigration, which swells their ranks?

The fourth group of industries is traditionally associated with the middle of the income distribution. It consists of sectors using *semi-skilled labor* in routine manufacturing (e.g. consumer durables) and certain services which have not been or cannot be offshored to low-wage countries. These are sectors upon which the post-war middle class miracle was largely built. It is pretty well accepted that in most cases, their recent employment growth has been inferior to their productivity growth (Mishel, Bernstein and Schmitt, 1998), causing a steep decline in relative demand for their labor, resulting in a weakening position of their workers in the labor market and stagnation (Europe) or decline (USA) in their real wages. Though trade and foreign direct investment have been rising in these sectors, it is not at all the same kind of globalization as in the industries referred to above. In general, only a few phases in the commodity chain (assembly) are relocated to Third World countries. The great mass of value added remains in the high-wage countries. Globalization essentially concerns cross-investment among countries with high wages, most of it trans-Atlantic, with imports from Japan to the West. Much of it involves rationalization of intermediate inputs, and takes the form of rapidly growing intra-industry (sometimes intra-firm) trade.¹⁴ In fact, this decline in real wages in a broad swath of industries which are globalized, but primarily among the developed countries, and concerning semi-skilled rather than unskilled labor, is a major cause of increasing income inequality and is perhaps the major unsolved question in the debate, not the rather easy-to-explain explosion of compensation at the top and collapse at the bottom. As noted, it is therefore these sectors which are generally cited in

arguments that it is technology, not globalization, that has weakened the position of the unskilled worker in the industrialized West.¹⁵

Technological change as a form of globalization by ideas

The technological change argument implies that declining relative wages in the second, third and fourth tiers of the economy, and especially the latter, are due to the technologies they now use, which are widely acknowledged to save on labor. This could bring about increasing inequality in a variety of ways. It could heighten the productivity differences between sectors, where those that shed labor pull away from other sectors, and the remaining workers have higher skills and wages (Berman, Bound and Machin, 1997). It could heighten the productivity differences, across sectors, between functions (occupations) in the economy, accentuating the “factoral” basis of labor market inequality (between skill categories).

Even if this is plausible, it still says little about the process by which such technological change might have come about. Most critically, why and how did such technological changes occur in so many different countries at roughly the same time (Berman, Bound and Machin, 1997)?¹⁶ There are three possible responses. One attributes it to pressures from global financial capital; but there are strong doubts about the veracity of such an explanation.¹⁷ A second would claim that countries with similar price levels should display similar production techniques. It is conceivable that all the developed economies, because they face similar developmental forces, have moved together from one envelope of feasible production possibilities (known as its PPF or “production possibility frontier”) to another. But in this case, there is no reason for relative factor rewards to change (Richardson, 1995, presents the

formal model for this, widely accepted point).¹⁸

Moreover, virtually all of the detailed historical studies of industrial technology go against this “spontaneous” convergence of technologies, and show that convergence happens because of spatial and temporal diffusion of such technologies, which have local origins (e.g. Hounshell, 1974; Scranton, 1997). This leads to a third hypothesis, which will be ours. This hypothesis has several dimensions:

1. We are going through a global diffusion of certain labor-saving, capital-augmenting production techniques, in many sectors;
2. Technological change and globalization are two sides of a single process, not mutually exclusive, in the sense that producers implement new technologies *defensively*, because they fear or anticipate loss of markets to foreign competitors if they do not. In other words, we are suggesting that Wood’s argument about this form of technological change applies equally to *North-North global competition* (Western Europe, North America, Japan, and a few other places), and in different sectors or parts of sectors than for the low-wage import competition case. This technological change is probably neutral across sectors, but biased against unskilled workers in virtually every sector it affects.
3. Globalization – relocation and trade – makes such defensiveness rational. Even though these countries, prior to trade liberalization, may have had roughly similar factor costs and limited productivity differentials, there are still big differences in their products and the ways they organize their firms and production systems, which could pose mutual threats.¹⁹ But these differences are largely outside the purview of

standard models.

4. It cannot be known whether all forms of defensive technological change among advanced economies augment total factor productivity and hence whether they fit with standard economic thinking.²⁰ My guess is that they do not, but instead represent a process of international mutual imitation, of what I shall call “globalization by ideas.”

An Example of Globalization by Ideas

In order to see what this theoretical explanation means, consider the evolution of the American car industry in the context of rising US-Japan trade from the mid-1970s until the present. In the USA, car companies experienced a productivity slowdown and profitability crunch in the early 1970s, and they were strongly shaken by Japanese imports. So, in a sense, the American story is one of import competition, not from a cheap or unregulated labor country, but from a high-wage country where new productivity techniques and resulting prices and product qualities outcompeted the American producers. The managerial elites in the United States initially did not understand the import threat in manufacturing and simply let their markets be flooded with better products from Japan in the late 1970s and early 1980s (Tolliday and Zeitlin, 1992; Abernathy, Clark and Kantrow, 1992). Later on, they did try to stem the tide with voluntary import restrictions and misguided attempts to restructure the firm, but when the damage was already done. The American producers finally responded to the new techniques in the late 1980s. There was no longer any possibility for staying with the old strategies for the American two-

thirds of the market, because consumer loyalties were being eroded.

There is a very interesting geographical process behind this sequence of events: the large-scale, long-distance diffusion and mastery of a set of labor-saving and productivity-heightening production techniques which align American quality, productivity and price norms with those of their Japanese competitors (Abernathy, Clark and Kantrow, 1992). It falls well into the standard trade theory notion that trade is a vehicle of knowledge diffusion (Eaton and Kortum, 1995; Bernstein and Mohnen, 1994; Park, 1995).

This example may not be the most common. The more typical case may be that of Western Europe, which is made up of countries which are on average 3-4 times more open to foreign trade than the United States. In most of the Western European car markets, Japanese competition has not had a strong direct influence. Today in France for example, Japanese car imports are less than 3% of the total; and virtually all other imports of cars are from other Western European countries with similar labor laws and wage levels often higher than those of France. Yet Japanization of techniques, product qualities, and price levels, has assuredly taken place in Western Europe. So, it would be hard to repeat the explanation advanced above for the US-Japan case: there isn't (yet) enough actual trade to claim that it is a way to reclaim lost market shares. It is clearly a defensive, anticipatory strategy.

Moreover, this implementation of techniques with a powerful labor-saving bias is taking place in countries with strong labor laws and labor movements, and where until recently there were substantial formal or informal restrictions on non-European trade. In light of these circumstances, why shouldn't the firms and workers in these countries be able to shelter themselves from these techniques with extreme labor-saving and flexibility bias, and thereby preserve labor demand, maintain wage shares and

resist some of the inequality which has come about? In other words, why do these national institutions for national production not keep staffing, wage and skill levels in a different configuration from that which has been brought about by diffusion of the new technologies?²¹ What other form of globalization could possibly have allowed this worldwide diffusion of labor-saving technologies?²²

Indeed, in the European cases, workers resisted these techniques and even management was not very interested in them in the beginning (Tolliday and Zeitlin, 1992). Some national governments also resisted because of the unemployment costs they would incur under the existing labor law regimes there. And yet their march forward seems now to have been inexorable. In France, for example, both Peugeot and Renault dramatically increased the quality of their cars, their design, their reliability, the range of models; they adapted models more quickly to market changes by the late 1980s; and real prices declined when adjusted for quality. This story is not unusual: the real prices for many goods and services -- sometimes in absolute terms, sometimes in quality-adjusted terms -- have dropped over the past 15 years in the United States and Western Europe (Lebergott, 1993, 1996; Schor, 1999; Gordon, 1990). This is merely a way of stating the concrete consequences of what is assumed in every theory of expanding world trade and specialization: by reducing the internal prices of consumption goods relative to investment goods, expenditures are shifted toward consumption.

In this view, moreover, the vehicle of the current globalization process can be thought of as being quite different from that which occurred earlier in the 20th century: instead of primarily concerning direct, i.e. trade-based, globalization, it also largely consists of non-trade-based globalization via flows of knowledge and ideas. Even in markets characterized by relatively modest shares of foreign goods (frequently the case), the “shots” may be called by these global idea flows. This suggests a rather

important reorientation of how we think about the economics of globalization this time around.²³

PART TWO: CONSUMPTION AND CONSUMERISM

The account given above is about strategies which take place within a large-scale collective action process, the conventional interaction between producers and consumers. On the producer side, there is *learning to engage in defensive technological innovation as a way to head-off potential loss of market share*;²⁴ on the consumer side, there is *a diffusion of calculating, internationally informed and consciously comparative consumer behavior*; the two interact in a mutually supportive way. This space- and time-sensitive interaction between production norms and consumption norms has not been well studied, to my knowledge. I believe that it holds the key to many dimensions of industrial Ahypermodernity \equiv -- the ever more frantic race for product quality, variety, rapidity of adjustment, and cheapness -- at the end of the 20th century.

In markets, supply and demand transform each other through a sort of back-and-forth movement between the two,²⁵ a kind of dance between the producer and the consumer. Given that the current rapid rise in trade began around 1973, one can surmise that in cases such as the automobile industry examined above, the consumer began to be heavily exposed to the prices and qualities of imported goods in the 1980s. This probably began with initial familiarization with imported goods and through increased global advertising. Domestic producers responded by imitating the prices and qualities of foreign goods that were taking away, or were poised to take away, their market shares. In this way, over the 1980s and early 1990s, consumer expectations about the relationship between price

and quality of many products changed. Though consumers were unaware of it, their expectations now depended on methods of production using the new labor-saving and quality-improving techniques. A new demand structure, rooted in these consumer expectations, has now made it much more difficult, if not impossible, for a given country to use its local institutional structure (such as its labor market structure or protectionism) to enforce local technical norms that would involve deviations from world productivity standards for a given product.

This provides a starting point for understanding the diffusion of such techniques, in that firms in countries with strong labor laws and institutions may not have initially intended to go head-to-head with those strong social forces. Instead, they found themselves in the typical crisis of inability to adapt to changing market conditions in the 1970s and early 1980s. There are at least three major elements of the way the story unfolded in different ways in different places: the commitment of producers to the new techniques in relationship to the labor market rules and institutions we have referred to; the degree to which they supported open markets; and the role of consumer society, in the form of consumption norms and conventions. Unlike the United States, in most of the rest of the developed world, the social category “consumer” is a very recent one, if by this we mean a category that individuals deploy widely in thinking of themselves, and a category that is explicitly, openly and favorably acknowledged by firms, politicians, and the media (Cross, 1993; Lynn, 1971; Lury, 1996; Slater, 1997). It is difficult to say, of course, exactly how and why this shift in the balance of power from producerist identities to consumerist identities has happened in the Western European countries. But we can speculate that in the early days of the rapid growth of trade (the late 1970s through the mid-1980s), selective and limited importation of goods served as a vehicle of diffusion of new standards of prices and quality, which

subsequently became incorporated as expectations by consumers. Firms appeal increasingly directly to the people in order to bring about the technological changes which have sometimes damaging effects on the incomes of those same people.

The Strengthening of Consumerism and Consumer Identities

Of course, one could argue that consumerism is nothing new, especially in the United States. But a strong case can be made that consumerism has widened and deepened markedly in the USA since the 1970s, when the current trade expansion began, and that it has become culturally dominant for the first time in Western Europe during this period. There are many reasons to believe that this is the case: institutional and organizational; psychological; and economic.

Consumerism has long existed as an institutional field, in the sense of a set of routinized social practices anchored in structured relationships between organizations (Powell and DiMaggio, 1992). There is abundant reason to believe that this field has been extended and deepened recently. Evidence of this includes the following: firms now explicitly educate consumers about the ways that they cheapen and improve their goods and services; there has been a massive increase in brand name advertising as a percentage of overall firm expenditures; there has been a nearly ten-fold increase in the number of new products introduced yearly in the USA between the 1970s and the mid-1990s (Madrick, 1996; Schor, 1999); the number of consumers' associations is rising rapidly; and the shopping experience, long exoticized for the upper classes, has now become "experiential" for wide swaths of middle-class consumption, while at the same time it has also reached new peaks of pure, price- and quantity-oriented massification (the spread of discounting) (Miller, 1998).

What is the result of these institutional practices in terms of the behavior of people and the ways that they define their interests and identify themselves to the world? There is little direct evidence, nor good measures, of these complex intangibles. In my view, it would be a grave mistake to hold that consumption is simply “pushed” on people, that they are duped into doing it by powerful institutional forces such as advertising. A more plausible interpretation is that consumerism, however it begins, ultimately sustains itself by becoming an intimate part of the action frameworks of individuals, how they see themselves and define their interests, how they approach the world, and how they present themselves to others (Goffman, 1956; Douglas and Isherwood, 1996; Rauscher, 1993; Slater, 1997, Chao and Schor, 1994; Lury, 1996). In this view, the institutional field of consumerism consists of a set of conventions which link and coordinate the behaviors of producers and consumers.²⁶

The basic possibilities for people to become hooked on consuming have deep psychological foundations. There is now a considerable body of research in social psychology on the fundamental attractions of arousal (versus boredom), pleasure (versus comfort), and comfort (versus discomfort), and the human strategies for getting from less desirable to more desirable states. Key among these are material means, and in today’s world, material means are usually consumed rather than produced by oneself (see Scitovsky, 1976, ch 2-4). Pleasure is apt to be inducted by seduction (e.g. *l’appetit vient en mangeant*), and this is the psychological target for the institutional field mentioned above. Humans also have a tendency to become addicted to certain forms of pleasure or arousal (Benedikt, 1996). One of the key ways this addiction can be maintained is through novelty, since pleasure decays rapidly into the status quo, and arousal peaks and must be reignited again (Scitovsky, 1976).

Still, psychology gives us only the basic possibilities, not a complete explanation for why those

whose interests are served by increasing consumption have actually been able to succeed in strengthening it so much recently. The classical approaches to this question stressed a presumed relationship between rising affluence and consumerism, often linked to the idea that affluence frees up time, and consumption is then a leisure activity which is strongly linked to status differentiation (Veblen, 1899; Tawney, 1952; Galbraith, 1958). More recently, a key foundation of those analyses has been questioned, for it is now widely admitted that increasing affluence (even with the caveat introduced by growing inequality), does not generate increases in free time. Indeed, the trend seems to be in the opposite direction (Hochschild, 1997; Schor, 1991; Hirschman, 1973; Cross, 1993).

In light of this, Schor (1999) suggests that the fundamental assumptions of mainstream economics with respect to consumption are fundamentally wrong. Economics assumes that what we consume is necessarily an expression of what we want, that it is the objective expression of our subjective preferences. The two assumptions behind this are “worker sovereignty” and “consumer sovereignty.” The former refers to the idea that workers actually choose how much to work and how much to earn, and competition insures that what they want will be available in the labor market; the latter refers to the idea that consumers choose the basket of goods and services that maximize their satisfaction and competition insures that what they want will be available for sale (for a spirited defense, see Lebergott, 1993). If these twin sovereignties hold, then consumers consume to the point of optimal satisfaction. But if, for example, workers cannot in reality trade off consumption for leisure, the reasoning falls apart. There is considerable empirical evidence against this notion of worker choice (Kahneman and Tversky, 1979). This leads Schor to show that because workers cannot choose their hours of work, then the current tradeoff between leisure, income and spending is not free and optimal.

Because they cannot increase their leisure time, they consume with the income they do earn. The time bind literature supports the idea that in an affluent society, we consume because it is our only realistic choice. As we spend our higher incomes, habit formation takes over and leads to a sort of cumulative effect of consumption (endogenous preference adjustment). These are the structural reasons why consumerism and consumer society have found such fertile ground recently; when combined with the psychological motivations and institutional forces noted above, the case is quite powerful.

The Lived Effects of Income Inequality, I: Consumption and Consumer Surplus

Economics has a concept, usually deployed as an efficiency measure, which can help understand one of the lived dimensions of changes in absolute and relative income levels. “Consumer surplus” is the term for the gains to consumers when lower production costs are passed on in the form of cheaper goods. If consumer surplus is growing, then, at a given income level, it is possible for the absolute material standard of living to increase.

Thus, in order to understand the lived effects of income distribution changes, the evolution of the absolute material standards of living of those affected must be considered. The evidence in this regard gives a somewhat different picture from that provided by the income distribution figures alone. In Western Europe, North America and Japan, real material standards of living have continued rise for a very high percentage of the population, probably 90% or more, throughout even the last 25 years (Lebergott, 1993; 1996). This is all the more remarkable because productivity growth has averaged only 2% per year, as contrasted to the post-war average before 1970 of about 5% per year. Virtually every indicator corresponds to this view: housing size and quality; the use of durable and non-durable

consumer goods; travel and leisure; health; and even schooling (Lebergott, 1993; Burtless, 1996b).

The same phenomenon discussed above -- dramatic labor-saving technological change resulting in a drop in relative demand for the semi-skilled -- which has caused a stagnation in incomes for much of the labor force, has also cheapened and improved most consumer goods and services. This is reflected in real consumer prices (Gordon, 1990) and it is felt as a dramatic increase in consumer surplus.²⁷

Even for that part of the population whose wages are most negatively affected by globalization – the unskilled – it is estimated that in the USA, a 3% direct decline in their real wages has been compensated by a 3% consumer surplus for this particular income group (Cline, 1997).

There are more disquieting signs for a hard-core group of the poor, which was never eliminated in the United States, but which almost disappeared in Western Europe in the early 1970s.²⁸ It also appears that public goods production (roads, schools, etc) has declined in some countries, due to policies that reduce transfers of income from private to public hands, and this undoubtedly impacted the poor more strongly than the rich, and that there are increases in certain negative externalities disproportionately suffered by the poor (e.g. pollution, violence). Still, the overall picture is not one of decline in absolute material standards of living, but increases for the vast majority. When we take this into account, we are forced to think very differently about of how the effects of income distribution changes are actually felt by the majority.

This raises a collective action problem similar to the one referred to in the previous section. There, we hypothesized that consumer interests and identities have played an increasing role in permitting producers to implement productivity strategies which run up against powerful organized producer interests (e.g. unions in particular, or wage workers in general) in many countries. One of the

reasons why there may have been less protest over the emerging income distribution than might be expected from the income figures per se, is that many of the same producers who are losing in relative - and even in absolute -- terms, are still gaining as consumers in absolute, material terms.

The lived effects of income inequality, II: positionality

Still, one might ask, if consumer surplus is growing, sustaining higher material consumption, why do so many people feel dissatisfied? Why is there a widespread impression of declines or inadequate progress in the standard of living in so many countries? There are three elements to an answer. Many of our expectations about standards of living are derived from observation of the generation which precedes us. In the post-war period, up until the early 1970s, there was very rapid and steady increase in the standard of living. Since then, there has been much lower rate of productivity growth, from about 5% per year to half that, a pattern which represents an enormous overall loss in output – whether felt as income or consumer surplus -- from what it would have been had the economy continued to grow at the previous rate (Madrick, 1996). A second reason for widespread dissatisfaction may be that there is a big difference between the overall effects of technological and organizational change on income in the economy, and the effects on a given individual. Behind the fact that absolute average incomes for low- and semi-skilled people have declined or stagnated²⁹ is a great deal of individual turbulence. Many individuals have seen what they thought as secure jobs, with certain income expectations, disappear, and have found themselves unemployed or reclassified downward in skill and income terms (Mishel et. al., 1998). This is an important corrective to the use of averages in the standard analyses.

The third reason is less apparent, and has to do with the *shape* of consumption. The Amalaise≡

of the middle classes goes beyond the individuals who have been the victims of labor market displacement; it affects many members of the middle-class who have actually benefited strongly from the consumer surpluses alluded to above without the negative wage effects. Add to this the people at the top, who are benefiting from increases in both income and consumer surplus. Empirical research on subjective well-being in relationship to real income has long confirmed that, once basic needs are met, satisfaction fails to increase. Frank (1999: 72) quoting results from the National Opinion Research Center, shows that real per capita GDP in the USA rose by 37% between 1972 and 1991, but the percentage of respondents reporting themselves to be very happy never exceeds 40%, its 1973 level. Veenhoven (1993), in a study of Japan from 1961 to 1987, shows that income per capita grew four-fold, but the average level of happiness stayed flat (see also Kahneman, 1998). This is an old theme in the critique of consumer society (Tawney, 1952; Galbraith, 1958; Sen, 1987), but is now easier to confirm and to theorize (Easterlin, 1995; Duncan, 1975-76).

But surely, the people at the top are happier, as they consume away? The appearance of greater numbers of high-income earners has altered consumption patterns. On the very top, the winners in winner-take-all markets constitute, in terms of their purchasing power and habits, something like a new aristocracy, a new *ancien régime* (Frank, 1999). Below this top 3% are another 17% percent or so whose purchasing power now permits them to acquire very large quantities of fine goods and services (Frank, 1999; Frank and Cook, 1995; Schor, 1999). One explanation which has been offered for the stagnation in subjective well-being comes from the social psychologists' notion of a fixed hierarchy of needs (Maslow, 1954), a ladder which people move up as they get richer in absolute terms. The implication is that richer people will be more satisfied, and everyone else will be less

satisfied. But this is not a strong finding of empirical research. Frank (1999:114) shows that the relationship between well-being and income is quite noisy; there is a great deal of individual variation, at all income levels. Factors other than income are important, many of them non-material.

A more powerful explanation for the stagnation of satisfaction, on average and at the top, comes from the notion of Apositionality \equiv in economics. A portion of the satisfaction we get from certain kinds of goods or services has been shown to depend on their position in a quality and status hierarchy, and not on their absolute qualities. Many consumer goods are like this, in two ways. First, they have status attributes and not just use-values. The Aenjoyment \equiv which comes from them has to do in part with how they compare to what we know is available, to the existing state-of-the-art. As was noted, one of the principal psychological dimensions of consumerism (and some other pleasures in life) is that the pleasure effect wears off with familiarity, and change heightens it again. This is true also of the pleasures of status-seeking: jockeying for position eventually yields to familiarity, and the position itself is objectively changed when others catch-up. Both lead to reduction of pleasure and renewal of the search for status. Psychological research suggests that status-seeking may have addictive properties (discussed in Benedikt, 1996; Hunt, 1996).

In addition, the absolute qualities of certain goods change with position.³⁰ This is the case for some of the most important collective goods such as schools or transportation. If everyone goes to public schools, they have a certain range of qualities. If they separate out into public and private schools, with the richer and sometimes more well-prepared going to private schools, then not only do public schools change in relative status, but they may see their absolute qualities changed by the withdrawal of those who now go to private schools.

All of these are examples of a condition which violates one of the fundamental precepts of the way standard economics views the pursuit of satisfaction, which is that each person's preferences are independent, severable expressions of their wants, which they can combine and transform optimally. This analysis suggests that preferences are interdependent (Gali, 1994; Tomes, 1986). This is both because of status seeking (Duesenberry, 1949; Bearden and Etzel, 1982; Chao and Schor, 1994; Frank, 1999, 1985; Rauscher, 1993); and because of the real relationship of absolute to relative quality (Alessie and Kaptyn, 1991; Easterlin, 1995).

Thus, alongside the considerable cheapening and quality increases in many goods as a result of the new production paradigms and their global price norms, there has also been a considerable increase in positionality. The dissatisfaction of the middle classes has to do in part with this Aother side of the coin≡ of globalization, a production-consumption couple at the top which makes them broad losers in a newly-accentuated positional consumption economy. These are not optical illusions or psychological problems of Aspoiled≡ people from wealthy countries. They are objective, real effects. It follows, of course, that the people at the bottom of the income distribution suffer even more egregiously from the new positional inequality in consumption.

Public goods and positionality: the prisoners' dilemma

One of the biggest differences between most of the Western European economies and the American is the percentage of total economic output which goes to public expenditure; there is a variation of almost 20% between the USA (30%) and most of the high public expenditure Continental countries (50%). Considering that military expenditures account for a relatively high percentage of US

public expenditure and that much of these funds end as private sector procurement expenses, there are big differences in the quantities of public goods provided to the citizens of these nations.³¹ Public goods tend to be less positional than private goods, although they are certainly not immune from positionality effects (it depends on how they are produced and distributed). But public goods are frequently non-status goods; many desirable private goods are as well (savings, some forms of education, hobbies, conviviality) (Frank, 1999). Public goods are often distributed so as to equalize access to certain kinds of necessities and thus should offset some of the positionality effects of status consumption.

Another way in which most Western European economies (and the Japanese as well) differ from the American is in the degree of wage dispersion. The multiple of average occupational wages in the highly remunerated occupations to the low-paid ones is much higher in the USA than elsewhere (Crafts, 1996).³² In Europe, there has been less effect of winner-take-all labor markets than in the USA, in part because of the different sectoral specializations of European economies (less high tech, for example). Britain is something of an exception, where the City of London and the corporate management stratum there have wage structures that are closer to those of the USA than to Continental Europe. Positionality effects seem to be growing mildly in Western Europe as the occupational wage structure comes to be influenced more by international trends (aided by policy changes in many countries).

One of the most worrisome aspects of positionality, in the face of growing income inequality, is that it may tend to crowd out non-status goods in general and public goods in particular. If status consumption is insatiable, it will eat up a lot of income that might otherwise go to non-status goods, even

where absolute incomes are rising, for example by creating the seeming paradox that as people get richer, they still want to pay lower taxes. The only way to slow down status consumption is collectively, with mechanisms that simultaneously limit what our status competitors are doing. This is a situation where rational individual choices lead to collective outcomes which most would not prefer (this is known as the “prisoners’ dilemma” because when two accused persons are separated into different cells, each will confess if each is promised a lower sentence in return for revealing her partner’s crimes, even though both would be better off if neither said anything). Thus, even though the USA is awash in private wealth, it is very difficult to convince even the increasingly wealthy upper-middle-class to reallocate more of their income to public goods, because most of them do not feel rich enough. In Europe, with lower absolute growth, more modest average incomes, and less inequality, it is easier to do so (for the time being).

In other words, the consumption experience of this end-of-century reflects a tug-of-war between a number of forces. The cheapening of many goods and services creates consumer surplus, but there are in addition national forces --- customs, education (supply effects), and regulations – which powerfully shape the ways that wage inequality due globalization and technological change actually affect individual experience. These include the degree and shape of positionality in consumption, as well as the split between private and collective consumption.

Homogenization and diversity

Contradictory claims are frequently made about the nature of contemporary material culture. A commonly heard complaint is that there are so many options for material purchases, services, and

cultural events that material and cultural life has become excessively fragmented, while others celebrate this apparently dizzying variety of possibilities (Miller, 1998; Lury, 1996). For both advocates and detractors, contemporary capitalism has greatly increased its capacity to support a diversified material culture, with much greater variety than ever before. There is considerable evidence in favor of this view: many more consumer products are introduced each year today than in the 1970s (something like 6-10 times more) (Frank and Weiland, 1997); the rate of product changeover in many fashion- and seasonal industries is much more rapid than thirty years ago (e.g. in fashion, it is often said that we have gone from 4 seasons to 9 per year, in the sense of marketing periods); in many markets, there are more versions of competing products meeting a given type of function (e.g. cars of similar horsepower and size but with many more brands competing and option combinations available, and many more cars of different horsepower and size to choose from as well); the number of specialized culture festivals in the United States has risen by more than 10-fold since the 1970s, well outstripping the level of population increase; and the examples could be multiplied many-fold. Much of the management and industrial economics literature is consistent with this view of things: managers are concerned to cope with increased risks of market shifts, and industrial economics has become preoccupied with product and process innovation and continuous “learning” (Porter, 1990; Lundvall, 1996).

Just as frequently, however, we hear lamentations about loss of diversity, a world which seems more and more homogeneous, which echo the longstanding postwar concern with mass consumer culture (Scitovsky, 1976). For the present analysis of its link to globalization, there appear to be two relevant dimensions to this, quite often confused with each other. The first has to do with the geographical rescaling and integration of consumer capitalism. Throughout the advanced economies,

and in the biggest cities of the rest of the world, there has been a considerable diffusion of certain rather similar dimensions of mass culture: fast food, films, youth fashion, shopping centers, and many other things come to mind here. The result, of course, is that when one travels from Los Angeles to Paris, it is much less exotic than it might have been in the 1950s; and much the same is true when one goes from London to Buenos Aires. This is true when we go to a jazz club in Greenwich Village or in Hollywood, or a gay disco in San Francisco, Miami, or London, and even more so if we go to a big rock concert or to the standard symphony hall high-culture event: they resemble each other, present the same acts, and are often organized by the same people. To be sure, beyond these internationalized aspects of consumerism, great local differences remain; but there is a definite convergence in certain kinds of consumerism and accompanying ways of life, for certain social classes. This is also true of vacationing, which traditionally has been the activity where we search for the different, the exotic: the average modern beach resort in Mexico looks a lot like the average beach resort in Tunisia or the Costa Brava, with its chains of hotels, restaurants, shops and nightclubs(Urry, 1993). And in many smaller cities in America, there is now a wide variety of ethnic and specialty restaurants, touring theater companies, and even some arty films; those places have become at one and the same time more internally diversified, but more like their metropolitan counterparts. So, part of the lament comes from the seeming disappearance of “indigenous, authentic and local” cultures in these places.

Inside Paris, Columbus, or Belo Horizonte, however, there is undeniably an increasing variety of material, service, and cultural outputs. So, the loss of diversity would appear to be due to the rescaling of the territories within which diversity is expressed; from a world of more internally homogeneous localities where diversity was to be found by travelling between places with significantly

different material cultures, to a world where one travels between these more similar places but finds the same, and increasing, variety within them.

It's not just variety that we feel, however; there are forces that pull in the other direction. For example, advances in communications and information processing make it possible efficiently to manage large service-delivery organisations with great diversity of products and frequent changeovers. This used to be limited to only the most gigantic companies and even they had relatively stable markets, but this is no longer the case. I will use some upper-middle-class examples here. In American cities, it is now possible to find many cafés serving specialty coffees, often many kinds in the same café. But at the same time, we find the same chain – Starbucks – in thousands of locations across the country, often times every few blocks in the same city. In California, the joke today is that in the gentrified urban neighborhoods supposed to have the most diversified specialty consumption, the presumed rejection of mass, chain-store consumerism, the most profitable specialists have simply crowded everything out, resulting in a replication of “Starbucks+Banana Republic+Noah's Bagel's+Gap+Barnes&Noble” every few blocks. This is massification with a different, more small-scale look. So, it is the material context of consumption – the places we do it – which gives us this impression of sameness, even as we are confronted with zillions of product choices. Whether it be the Gap on the rue de Rivoli, or the Gap on 5th Avenue, it's pretty much the same experience. Lest it be thought that this is only a problem in more upper-income areas, it should be noted that chain stores are taking over food marketing in heavily Latino East Los Angeles,³³ where the big competition is between the Mexican chain *Gigante* and local chains started by ethnic entrepreneurs, to the detriment of independent, locally-owned shops (Rosenberg, 1999).

Part of this can be explained as straightforward economies of scale in managing organizations, which can now extend and replicate themselves over wider territories, giving rise to the feeling of sameness from one place to another. In other words, to be huge, Wal-Mart is only one, and perhaps not the most important, model today. Hugeness can come through numerous widely-scattered outlets rather than a smaller number of huge outlets.

This is the point where the economics of marketing and management usually concludes its happy story about how the consumer can now be served a huge variety of high quality and specialized products with all the benefits of both scale and localism. But there is another force at work in certain markets which militates in favor of a loss of diversity *tout court*. There is a concept in economics known as “Hotelling’s duopoly.” It concerns the parable of a beach, 4 kilometers long, with two ice-cream vendors. If they were to locate optimally to serve the sunlovers who are spread equally along the 4 kilometers, they would take up position at kilometers 1 and 3. No sunbather would be more than a kilometer away from ice cream, and only a small number, right at kilometer 2, would ever shift loyalties. But this isn’t what happens. When the two vendors compete, they shift positions to cut into each other’s markets. After several rounds of moving toward kilometer 2 in order to grab some of the other’s customers, they end up, both, clustered around kilometer 2, so they each get half the customers for the entire length of the beach. The sunbathers in kilometers 0-1 and 3-4 lose out, because they have to go much further to get ice cream. The result is bad for everybody, but it’s the outcome of rational competitive behavior.

This is a locational metaphor for a broader economic phenomenon. In certain product markets, a small number of producers will act in a duopolistic way, effectively reducing the range of outputs to

cluster around the “middle” of the demand structure. Major Hollywood film studios, for example, have figured out that they can make a lot more money by producing middle-taste films. These are known as “formulas” in the industry’s lingo. Filmgoers may see films with different stars and slight variations on the theme, but to the industry decisionmakers, they are rolling out more in a series. And the price of making and distributing a successful big-time formula film has risen geometrically, reducing the amount of major studio capital available for other kinds of films. The result is producers aim their products increasingly toward the middle of the market. This is not the same thing, often alleged, as oligopolistic market control, because the markets are highly competitive.³⁴

This kind of convergence in many markets might help us understand the feeling of reduction in diversity in certain areas, notably certain kinds of cultural products (media, films, music), and even in certain kinds of manufactured goods, where a fantastic number of options, colors and certain kinds of functional differences are available, but where certain rather middle-of-the-road marketing criteria must be respected.

There are exceptions, one might protest. There is a proliferation of independent films; in manufactured goods, you can find specialty products in specialty stores if you search. For the latter, however, price premiums must be paid (Scitovsky, 1976); for the former, there are almost insuperable barriers to large-scale distribution and high-level financing which is a prerequisite for the technical sophistication enjoyed by the high-budget films and which has become the norm for mass markets. Specialty goods are more abundant, perhaps, but they remain marginalized. In journalism, whether written or broadcast, there is some evidence of Hotelling dynamics, resulting -- in the USA -- in a kind of competitive journalism, which competes around the details of fundamentally “middling” interpretations

of things, and chooses what is newsworthy via the Hotelling dynamic. The point is that there is probably a very complex real mixture of variety-enhancing and variety-reducing changes occurring in what is produced, even in the markets of the richest economies. Our seemingly contradictory impressions may very well be quite accurate. And these contradictory effects have to do with globalization in two ways: the rescaling of markets; and Hotelling dynamics within enlarged and deepened markets.

By way of conclusion

The argument here has ranged widely across issues often dealt with in separate academic fields, so it may be helpful to draw the threads together. To begin with, we explored a paradox at the heart of economic globalization: why the “producerist” countries (mostly the social democracies of Western Europe) have essentially restructured their industries along much the same lines as the “non-laborist” Americans, involving labor-saving and inequality-promoting changes in production techniques. Consumer society has been mobilized in favor of such changes, and reinforces the ability of firms to implement defensive technological changes. In this way, the relationship between globalization and increasing income inequality was seen to be broader than in many analyses. Secondly, we asked why increasing inequality has stimulated only minor protest, speculating that there are offsetting effects on material consumption and real standards of living of contemporary economic restructuring. The contemporary citizen sometimes acts as consumer, other times as producer, and seems to have behaviors that are inconsistent if evaluated only in terms of standard class or income (“producerist”) criteria. Overall satisfaction levels in the advanced economies have not increased with growing material wealth, however. Our third point was that at the same time as consumerism has been widened and

deepened, and its logic extended further down the social hierarchy, there is also an increasing status hierarchy in consumption, creating the impression of falling farther behind even as we become much richer, and creating a stagnation in satisfaction levels. Fourth, globalization and technological change make it possible for our economies to produce and market a hugely increased variety of goods, but they also push certain industries to concentrate on a middle-of-the-road outputs; these two tendencies create the simultaneous and contrasting impressions of greater variety and of the tendency for things to become more homogeneous. Finally, the differences between public and private consumption, which are quite varied from place to place, give different local flavors to these global trends.

This is only a beginning and there are many complex issues remaining to be resolved. Most importantly, discussions of globalization and inequality, and of the contemporary experience, need to avoid considering the population in a simplistic way. They are not only wage-earners, they are also consumers, not to mention citizens (Inkeles, 1983). Though the consumer society has been long in the making, I believe that it has entered a new and qualitatively different phase from the period prior to 1980, with acceleration of consumerism, product diversity, rapidity of product changes. With this deeper and wider consumer society, producer identities appear to be crumbling, especially in Western Europe, where they have traditionally been stronger than in the United States. We have not sufficiently considered how these different identities affect the feelings that people have about the economic effects of globalization and hence the complex socio-economic and cultural processes set into motion by them.

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NOTES

¹ In part this conclusion depends on outcomes of disputes over things like the inflation rate, as in the Boskin Commission debate in the United States. For quite some time, there was considerable opinion that middle-class incomes had actually fallen in the US since the late 1970s. But the Boskin Commission reevaluated the consumer price index and showed that inflation had actually been considerably smaller than had previously been thought. Though there was considerable controversy over the details of the Boskin Commission's findings, there was rather little challenge to the overall conclusion. One of the reasons why the inflation rate was re-evaluated downward is related to the theme we will develop in the second half of this paper, the advent of much higher product quality in many areas of the economy, so that prices do not reflect price inflation per se, but quality improvements.

² See the special issue of the *Quarterly Journal of Economics*, February 1992, and Mishel et. al., 1998.

³ Using the standard OECD definition as having family or individual income which is less than 50% of the nation=s median for the category in question.

⁴ And its modern version, known as the Heckscher-Ohlin model

⁵ Among economists, this leads to an important controversy over how one could ever measure the effects of trade on wages. For the purists, only changes in the relative prices of goods will do. Moreover, these prices must be observed over a certain period of time, because the effects of trade must go through several rounds of inter-sectoral general equilibrium adjustments of quantities and prices of outputs and factors. For others, it is legitimate to measure, directly, what is known as the “factor content” of traded versus domestic output, i.e. how much labor and what kind of labor goes into making these different outputs. Critical to this is the elasticities that one uses in the calculation, i.e. how much change in labor demand in the domestic labor market one assumes for a given amount of imports with a certain factor content. The first group of economists consider this to be insufficiently theoretical.

⁶ There is a huge literature on globalization in relationship to location of economic activities and the specialization of regional or national economies. of specialization. I develop my ideas on it in Storper, 1999.

⁷ In this regard, Wood, 1995, p. 73, notes: “This heterogeneity of goods within statistically defined sectors is a major limitation of all the price data and one which has become worse over time. Manufactured imports from developing countries used to be concentrated on a few sectors, such as apparel and footwear, but are now spread across many sectors, partly because, for a wide range of goods, the production process has been split up, with the labor intensive stages performed in developing countries, and the skill-intensive ones at home.”

⁸ Mishel et. al, 1998.

⁹ It is important to remember that in general equilibrium thinking, technological change which augments capital would not alone cause a significant rise in inequality between skilled and unskilled labor: it would be considered an endogenous movement from one equilibrium state to another without a change in factor shares (all labor would be affected equally such this kind of change, if it occurs in equilibrium). Only variable rates of technological change will do.

¹⁰ Some may also be related to capital gains in the stock market, but since we are concerned with wage and salary inequality here, we will not go into this in any detail.

¹¹ This would be reflected in a variety of indicators, such as high location quotients.

¹² The France, Italy and US cases are documented in Storper and Salais, 1997; a broader international picture can be found in Porter, 1990.

¹³ This is demonstrated for the French case in Salais and Storper 1993. See also Bellandi, 1993.

¹⁴ This is predicted by trade and location theory. See Krugman, 1995, which I review in Storper, 1999.

¹⁵ But actually what is really being referred to is the worker population that corresponds to the post-war “middle class.” These are semi-skilled workers, not the “unskilled” or “low skilled.” The problem with most of the empirical and theoretical literature which has been reviewed in this paper is that it makes a simple distinction between skilled and unskilled labor. Thus, the category we are trying to get at here – semi-skilled labor – is not considered separately. This is in part because it would be very hard to measure it with the indicators available.

¹⁶ There is a lot of indirect evidence of this, in the way that productivity levels at the sectoral level track each other in different advanced economies (Pilat, 1996; van Ark, 1993; van Ark and Crafts, 1996; Baumol, Nelson and Wolff, 1995).

¹⁷ The argument is that firms have to show performance which corresponds to global financial performance norms, or they will not be able to attract money. The structure of the now highly globalized global capital market is now the club which allows firms to introduce international productivity and best practice norms into even their nationally-oriented production activities. Newspapers are full of stories about how stock prices rise when firms announce layoffs of workers and this relationship is probably true for some set of cases. However, there is essentially no evidence which shows this cost-cutting logic to be the result of direct, institutionalized pressure by something called Ainternational financial markets, or even indirectly via competition for capital. Firms borrow on international markets for a variety of reasons, some of which are simply speculative (recent Asian financial crisis).

Firms= stock values rise and fall essentially on their profitability data, which are, in turn, the indirect result of their financial and productive performances. In highly differentiated markets, usually characterized by market imperfections, the role of finance capital is quite complex. There are numerous cases where investors do not demand any particular strategy on the part of the companies they invest in: they want the profits, and however they can be

found is fine with the investor. Highly differentiated markets leave a wide margin of maneuver from firm to firm and hence from region to region.

Even if, as certain literature claims, there were one perfect global market with transparent information for financing companies -- i.e. a single set of profit, asset value, and returns criteria for receiving investments -- it would not follow that this would translate directly into precisely converging production techniques. This is true for a disarmingly simple reason: companies -- especially big, multi-product and multinational ones -- have financial results which are aggregates of many different lines of activity. The markets would merely dictate that they come up with a given *aggregate* result. But there would be no necessary relationship between these aggregate criteria and what firms actually do. Even in a given line of business, the result would be a loose one, rather than a tight one.

Another argument claims that there is a Athreat effect¹⁸ at work, where the threat is direct, not passing through financial markets. With more open markets, firms tell workers that if they do not adopt something equivalent to the best obtainable productivity and price norms then their products would be pushed out by cheaper or better imports. Cases of companies obtaining big concessions from workforces, and acquiescence to layoffs, via this threat, are frequently aired in the literature and in the newspapers. Thus, there might be effects of globalization that do not show up as measurable flows of capital, labor or products. Two problems crop up here. One is that the proportion of total restructuring which is carried out through such threat-based concession bargaining is probably fairly low. The other is that the origins of production techniques to which managers aspire still would need to be explained, which is what we are trying to do here.

More significant, and closely related to our argument, is that the *agency* has to be that of managers, who certainly refer to financial markets in deciding what kind of restructuring of production to carry out. They must meet the investors' criteria; to do this, they have to have financial results. The real question would be what kind of action framework these managers use to link their management of the company to a given set of world equilibrium prices in their markets, so as to obtain the desired financial results. Financial markets are there as a constraint, but they do not have direct agency.

¹⁸ As Richardson, (1995, p.42), puts it: "...in the broad growth of the economy from one production possibility frontier with free trade to another frontier with free tradethere is no change in relative prices of the two goods, which are set on the world market in both cases. Lots of other things change. There is overall growth, technological investment, capital deepening, and decline in the other-goods sector coupled with increased other-goods imports. The economy's dynamics are hardly dull. But relative factor rewards are constant. They are *not* linked in any rigid way to trade volumes, nor to sectoral production shares, nor to the economy's overall factor supplies, nor to technology that augments effective units of factors simply by changing their generic productivity, nor to changing demand patterns within the society..."

¹⁹ There is a big literature on "comparative advanced capitalisms." For an interesting popularization, see Albert (1992).

²⁰ But standard models do envisage the possibility that international migration of "technological capital" would affect relative prices. Richardson, 1995, p. 44.

²¹ Of course, to some extent they have, as in the differences in the low-wage service sector between continental Europe, the USA and Great Britain. But these differences are quite limited in manufacturing and they are being reduced in services.

²² For the historian of such techniques, the fact that they are labor saving would say nothing about whether labor-saving is a principal reason for their adoption. Indeed, while some accounts suggest that labor-saving is the principal motivation of employers who adopted in the early days, many other accounts focus on the need to change practices of labor utilization (including staffing level, of course) in order to get the other benefits of the new techniques; labor-saving is something like a secondary and opportunistic benefit of adoption, not its only or primary purpose as is often assumed (Abernathy, Clark and Kantrow, 1992; Utterback, 1996).

There is a lively debate over this. Some excellent analyses claim that managers are aware of, and are explicitly promoting, a declining technology-skill complementarity. See, for example, Lazonick and O'Sullivan, 1997.

²³ I have written more extensively about this issue in other papers. Storper, M, 1999a; Storper and Chen, 1999.

²⁴ Expressed more technically, there is considerable evidence that European producers are adjusting to globalization not only by becoming more specialized in what economists call “intra-firm trade” but that they are also making similar products and competing head-to-head, and that this is an important percentage of trade among the advanced countries (Storper and Chen, 1999).

²⁵ The term for this comes from Léon Walras and it is a somewhat untranslatable French word, *tatonnement*, something like a back-and-forth method of finding one’s way and adjusting to signals.

²⁶ I have written about how institutions and institutional fields are anchored in conventions between persons in Storper, 1999b.

²⁷ There is a big debate, of course, about the social utility of many goods (Frank, 1999; Schor, 1999; Scitovsky, 1976; Galbraith, 1958).

²⁸ Some W.E. countries reduced their poverty rates to less than two percent at that time, but they have since tended back upward. The USA had very strong poverty reductions from 1955 until 1975, and the reductions ended around then, but -- contrary to popular impression -- they have only risen by about one and a half percent since then. What has happened in both Europe and the USA is that there is a group of the poor which have become very poor.

²⁹ This is not just household income, where it is frequently argued that individual wages have declined but multiple wage earners permit maintenance of household incomes. In fact, household income has tended to rise due to combination of more than one income, while individual wages have tended to stagnate, at the middle. Overall monetary purchasing power of the average household has risen since the late 1970s.

³⁰ A classical version of this comes from locational or land use economics, where Ricardian land rent is the result of a limited number of spots at a given location and at a given proximity to other locations. While there is some possibility of expansion, through intensification of land use (higher buildings) or better transportation, the potential is not infinite and the user attributes of the land change with expanding supply, often remaining inferior to the best locations, which are already used up and cannot be expanded.

³¹ But, this difference may be mitigated by the effects of NGOs, charity, and the voluntary sector in the USA, which provide public goods outside of the public budget.

³² Although total income distribution is not hugely different in the USA, because in other countries inherited wealth, income on property, compensate for more egalitarian wage structures. Moreover, in some countries, less wage dispersion is reflected in bringing the bottom closer to the middle, but leaving average wages rather low compared to the United States (this is the case for France, for example, where the minimum wage, much higher than the USA, is 60% of average wages, and the average is in turn a lot lower than in America).

³⁴ The term of art is “contestable” markets, a form of competitive markets with a small number of producers (Baumol, Panzar, and Willig, 1982).