Perchance to Dream: The Global Economy and the American Dream

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PERCHANCE TO DREAM: THE GLOBAL ECONOMY AND THE AMERICAN DREAM

MICHAEL S. KNOLL*

I. THE LEGACY OF THE 1980s

In May 1992, South Central Los Angeles burst into flames. Although the immediate cause of that disturbance was the acquittal of the four white police officers accused of beating black motorist Rodney King, few would deny that the root causes of the riots extend far beyond the Los Angeles criminal justice system. Economic frustration is often identified as the underlying cause, although U.S. social and racial policies are also frequently identified. Of course, the economic frustrations that were and continue to be felt in South Central Los Angeles are shared by many nationwide. Many of the roots of these frustrations, however, are international, extending to all corners of the globe from which U.S. businesses and workers face competition.

The integration of the United States into the global economy, commonly termed globalization, is occurring and is likely to continue for

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2. The car that Rodney King was driving at the time, a Hyundai, was manufactured in South Korea. See Hector Tobar & Richard Lee Colvin, Witnesses Depict Relentless Beating, L.A. TIMES, Mar. 7, 1991, at B1.

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some time before eventually levelling off. Although the received wisdom has been that the rising tide of economic growth from globalization will raise the incomes of the rich, the middle class, and the poor, evidence from the 1980s contradicts this belief. A consensus has emerged that over the previous decade the incomes of the more-educated and richer segment of the U.S. population rose and those of the less-educated and poorer segment fell. Although there remain many unresolved issues in understanding the causes of the increase in U.S. inequality over the 1980s, that increase is well-established. This Essay describes the role globalization plays in increasing U.S. inequality. Building on that foundation, I describe how the advent of the global economy exacerbates conflicts in U.S. society and the consequences of globalization for several cherished American beliefs.

II. CURRENTS IN U.S. ECONOMIC HISTORY

Since colonial times the United States has had a high standard of living. Of course, by definition, the wealthy enjoy a higher standard of living than the rest of society. What is noteworthy about the history of U.S. living standards, however, is that in comparison to the rest of the world, it is not the American rich but the American middle class and poor that have benefitted most from the high standard of living. That is, the standard of living of the American middle class and working poor, relative to the standard of living of their foreign counterparts, is higher than the same ratio for the rich.


There is substantial disagreement over the magnitude of the increase in inequality. The problem is complicated because of the large influx of new entrants to the workforce and changing family composition. Compare Paul Krugman, Like it or Not, The Income Gap Yawns, WALL ST. J., May 21, 1992, at A13; with On Keeping the Record Straight, WALL ST. J., May 21, 1992, at A12. Commentators also disagree on the significance of the increase in inequality, especially over the distribution of gains from recent economic growth. Compare Paul Krugman, supra, with Michael Boskin, Boskin on Krugman, WALL ST. J., July 3, 1992 at A7. Finally, there is a heated debate over the effect of conservative domestic policies on income inequality. Compare Krugman, supra, with Boskin, supra.


From colonial times the New World provided (free) working men and women with a good living. For many, what America offered was not so much the opportunity to strike it rich, as in the stories of Horatio Alger but a higher standard of living for the common worker than could be attained in his or her native land. The source of this wealth at first was the abundance of natural resources, most notably arable land. Although capital was limited in the colonies, land was virtually unlimited and, when combined with labor, produced a wide variety of agricultural products. Because farmers in much of Europe and Asia had lower quality land and less of it, labor was less productive there than in the New World. This higher level of productivity led to a higher wage rate and standard of living and encouraged many Asians and Europeans to make the long, hard journey to the New World.

In time the United States evolved from an agricultural economy into an industrial one. In a manufacturing society, the relative abundance of capital is a more important determinant of wages than is land. Throughout much of its history, the United States has sustained high rates of capital formation for prolonged periods of time. With the exception of the Civil War, the United States has avoided serious destruction of its capital base. Thus, U.S. workers have had more capital with which to work than did their foreign counterparts. However, of even greater importance than the depth of the capital base are the level of technology than did other modern industrial nations. John Coder et al., *Inequality Among Children and Elderly in Ten Modern Nations: The United States in an International Context*, 79 AM. ECON. REV., PAPERS AND PROCEEDINGS 320, 322-23 (1989).

7. *See, e.g., Horatio Alger, Jr., Ragged Dick; or Street Life in New York with the Bootblacks* (1868). In *Ragged Dick*, a poor shoeshine boy rises to wealth through hard work, perseverance and honesty. This formula, which was repeated by Alger in scores of books during the last third of the Nineteenth Century, came to be known as the "Alger hero," the fictional embodiment of the American rags-to-riches success story. *Encyclopedia Britannica*, Micropedia 263 (1991). Of course, Alger's stories are fiction, but apparently so is the public image of Horatio Alger as the popularizer of the American dream of financial success. A recent biography of Alger argues that the heroes in Alger's books rarely rose to great wealth or power, more commonly attaining only middle-class respectability, and that the transformation of Alger into American mythmaker occurred posthumously and for largely political reasons. Gary Scharnhorst & Jack Bales, *The Lost Life of Horatio Alger, Jr.* 148-56 (1985).

8. *See Paul Samuelson, Economics* 627 (11th ed. 1980). Economics teaches that labor in unregulated markets is paid its marginal product. Moreover, the marginal product of labor is higher, when there is a smaller proportion of labor to available land and capital. Although capital was scarce in the New World, land was not. The scarce factor was labor, which was well paid as a result.

and the quality of labor. Here again, the United States has been fortunate. U.S. openness to experimentation and innovation has been credited with placing the country at the technological forefront by the end of World War I. That lead accelerated until the diffusion of technology in recent decades caused much of that lead to dissipate. As for the quality of labor, in spite of numerous persistent and seemingly intractable problems, such as poverty and discrimination, the levels of education and physical health of the U.S. worker have remained high throughout the nation's history. Once again this translated into higher wages and a higher standard of living for American workers than for their foreign counterparts.

The economic history of the United States is largely a story of rapid growth, with the country sustaining rapid population and long-term per capita income increases over most of its history. That history has had a profound influence on U.S. society and politics. It created a society with a broad middle class, a republic in which the average American had a stake in the status quo and was optimistic about the future because of the likely prospect of continued economic growth.


13. SCHEIBER ET AL., supra note 9, at 11. Although standardized test scores fell from 1966 through 1979, they have been rising since 1979 and have returned to their 1966 level. John Bishop, Achievement, Test Scores and Relative Wages, in WORKERS AND THEIR WAGES, supra note 4, at 146.

14. For example, between 1920 and 1970, real per capita income in the United States increased by 250% and the mean American income was 60 percent above that of other developed nations. SCHEIBER ET AL., supra note 9, at 7.

15. KEVIN PHILLIPS, BOILING POINT: REPUBLICANS, DEMOCRATS, AND THE DECLINE OF MIDDLE-CLASS PROSPERITY 14-15 (1993). Study after study shows that the wealthy received a disproportionate share of income gains in the 1980s. E.g., Kosters, supra note 4; LEVY & MICHEL, supra note 4; Congressional Budget Office, House Ways and Means Committee, Overview of Entitlement Programs ("Green Book") 1521 (1992). The data describe two phenomena. The first is a sharp slowdown in the rate of income growth beginning in 1973. For example, disposable income per full-time worker increased by 2.45% a year from 1947 through 1973 but by only 0.67% a year from 1973 through 1988. Levy & Murnane, supra note 5, at 1333 n.1. The second is an acceleration in earnings inequality. Id. at 1343-45 & Table 2 (twenty-two series of inequality, compiled by seven groups of authors, for all earners, men and women, showing increasing inequality over portion of 1980s examined). The 1980s, which exhibited slow growth in average (both mean and median) and income with increased variation around that average, increased the ranks of the poor and the wealthy while the ranks of the middle class decreased. Id. at 1333; John Bound & George Johnson, WAGES IN THE UNITED STATES DURING THE 1980s AND BEYOND, in WORKERS AND THEIR WAGES, supra note 4, at 77, 77-80. But see RICHARD MCKENZIE, THE "FORTUNATE FIFTH" FALLACY 18-19.
III. CONSEQUENCES OF A GLOBAL ECONOMY

The integration of the United States into the global economy has occurred rapidly. Between 1950 and 1980, the share of U.S. gross national product ("GNP") involved in international trade increased nearly tenfold, from two percent to almost twenty percent. Trade is not the only way in which the United States has become integrated into the global economy. There are also closer ties through capital flow and technology transfer; these are increasingly operating not just from the United States to foreign countries but also from foreign countries to the United States.

The economic consequences of U.S. integration in the global economy are profound. A global market for goods gives U.S. consumers more choices and lower prices. Although it provides jobs in export industries and eliminates jobs in import-competing industries, the net change is approximately zero. With job loss and job creation approximately equal, the frequently debated and highly contentious issue of the total number of jobs is a red herring. The underlying issues are distributive—who has the jobs and at what wages—because globalization can have a dramatic impact on wages, especially relative wages, within the economy.

The first economic principle that must be understood is that the movement of goods, like the movement of workers, tends to reduce cross-border wage differences. In effect, the cross-border movement of goods places workers in different countries in competition with one another. For example, because steel is produced in the United States and in South Korea, trade restrains how much higher U.S. steelworker wages can be than those of their South Korean counterparts. If U.S. wages in the steel industry were too high, U.S. steel would not be able to compete with South Korean steel that would, as a result, pour into the United States and other countries. This would lead to a decline in U.S. steel production and a loss of jobs in the domestic steel industry. Thus, in a global market

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(Ctr. for the Study of Am. Business Policy Study No. 111, 1992) (arguing that incomes of all quintiles grew over the 1980s, but the rate of growth was the greatest for the highest quintile).


18. One way to state this idea is to recognize that trade in goods can substitute for factor mobility. See WILFRED J. ETHIER, MODERN INTERNATIONAL ECONOMICS 110 (2d ed. 1988).
the wages of steelworkers in the United States and South Korea cannot be determined independently. 19

A second way in which globalization reduces cross-border wage differences is through the diffusion of technology. Three decades ago U.S. commercial technology was unsurpassed. However, since then much of the U.S. technological lead has vanished. The availability of comparable technology around the world tends to equalize worker productivity, reducing cross-border wage differences among similarly skilled workers. 20

Globalization has also reduced the capital abundance advantage of the United States. At the end of World War II, Europe and Asia were in ruin. Their plants were destroyed, their capital base depleted. U.S. workers had much more capital with which to work than did their foreign counterparts, raising both their productivity and their standard of living relative to that of their foreign counterparts. 21 However, since then, foreign countries have been rebuilt. Furthermore, capital is now highly mobile internationally, moving rapidly to seek the highest returns. Thus, the U.S. advantage from more abundant capital has lessened. 22

The integration of the United States into the world market does not affect all workers equally. Globalization is raising the wages of highly skilled U.S. workers and reducing the wages of less skilled U.S. workers. This occurs because relative to the rest of the world, the United States has an abundance of highly educated workers. Consequently, integration places the highly skilled and highly educated segment of the population into a pool with relatively few highly skilled and highly educated people, thereby raising their wages. Similarly, integration places the less skilled and less educated segment of the population into a global pool with an abundance of less skilled and less educated workers, thereby lowering

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19. The conclusion that wages will not be determined independently in each country does not imply that wages in the two countries will be equal. Wages can differ to the extent that transportation costs or import restraints raise prices in one country. Wages can also differ to the extent that worker productivity differs between countries. PAUL SAMUELSON & WILLIAM D. NORDHAUS, ECONOMICS 680-81 (14th ed. 1992). Productivity will differ to the extent that workers in one country are more skilled or their country has superior technology or resource endowments, or capital is relatively more abundant.


21. Thus, for example, until the early 1970s, U.S. production line workers enjoyed higher living standards than U.K. branch bank managers or German supervisors. PHILLIPS, supra note 15, at 30.

their wages. Because the global pool has relatively more unskilled workers than does the U.S. pool, integration is raising the relative wages of skilled workers in the United States.\textsuperscript{23} Thus, integration, which tends to reduce cross-border differences in wages among similarly skilled workers,\textsuperscript{24} has caused the real wages of the highly skilled portion of the U.S. workforce to rise and those of the less skilled and unskilled portions to fall.\textsuperscript{25} The effect is just the opposite for workers in the rest of the world. Globalization reduces the relative wages of the highly skilled portion of the foreign workforce and raises the wages of the less skilled or unskilled portions.\textsuperscript{26}

The disparate impact of globalization on highly skilled and less skilled U.S. workers is well-supported. The data indicate that over the 1980s there was a substantial increase in demand for skilled workers relative to unskilled workers.\textsuperscript{27} Part of this shift in demand can be attributed to trade flows that have reduced the number of manufacturing jobs, the traditional high-wage employer of less-educated men.\textsuperscript{28} However, this cannot be the complete explanation because declines in demand for less-educated workers have also occurred within industries.\textsuperscript{29} Recent years have also seen much non-neutral technological change, increasing the productivity of highly skilled workers more than that of less-skilled and eliminating many middle-class jobs.\textsuperscript{30} It has been argued that globalization plays a role in forcing firms to implement such non-neutral

\textsuperscript{23} One way to see this is to recognize that wages are determined by the demand and supply of labor. Increased trade, especially increased imports of goods that intensively use low-skilled labor, reduces demand for such labor, thereby lowering wages. Also the movement offshore of much manufacturing pushes many of these workers into the nontraded sector, increasing competition and reducing wages.

\textsuperscript{24} In the international economics literature, this is called the factor-price equalization theorem. This theorem states the following for a two country, two good model: "Free international trade between two countries will cause factor prices in the countries to become more equal. If both countries continue to produce both goods with free trade, their factor prices will actually be equal." \textsc{Ethier, supra} note 14, at 109.


\textsuperscript{26} At least this is what theory suggests. If so, globalization might reduce global income inequality while increasing U.S. income inequality.

\textsuperscript{27} Levy & Murnane, \textit{supra} note 5, at 1371-72.

\textsuperscript{28} \textit{Id.} at 1372. The influence of trade on wages is reflected in the changing composition of trade. \textit{See Murphy & Welch, supra} note 4, at 60-61. It is also reflected in the shift of operation abroad. \textit{See Bound & Johnson, supra} note 15, at 97-101; Marvin H. Kosters, \textit{Foreword, in Workers and Their Wages, supra} note 4, at xi-xii.

\textsuperscript{29} Levy & Murnane, \textit{supra} note 5, at 1372.

\textsuperscript{30} \textit{Id.} at 1362.
technological changes because increased foreign competition increases the pressure to improve efficiency.\textsuperscript{31}

IV. CONFLICTING RESPONSES

Globalization has not so much created new conflicts as it has intensified existing conflicts. At the broadest level of generality, globalization drives a wedge between the concepts of economic efficiency and domestic income equality. Although the conflict between these two values predates the integration of the U.S. economy into the world economy, globalization exacerbates this conflict.\textsuperscript{32} Globalization raises the cost to the nation of using the government's traditional economic policy tools, such as tariffs and quotas. On the other hand, the increased inequality brought about by globalization strengthens the fairness argument for intervention.\textsuperscript{33} The results are increased tension, animosity and acrimonious public debate.\textsuperscript{34}

There are two standard responses to the dislocations caused by imports. One response is to allow the dislocations to occur and to permit the dislocated workers and capital to be absorbed by growing sectors of the economy. The second response is to preserve jobs and profits by restricting imports of the threatening merchandise.\textsuperscript{35} Such restrictions take a variety of forms including tariffs,\textsuperscript{36} quotas,\textsuperscript{37} voluntary restraint

\textsuperscript{31} \textit{Id.} at 1369.

\textsuperscript{32} The conflict between efficiency and equality brought about by globalization arises only if a national perspective is taken. Looked at globally, globalization reduces inequality, so there is no conflict. This raises the question of what perspective to take for normative analysis: the national perspective or the global one.

\textsuperscript{33} Using a different vocabulary, the conflict can be described as one between individual autonomy and community.

\textsuperscript{34} The manifestations have been documented by \textit{PHILLIPS, supra} note 15, at 223.


\textsuperscript{36} A tariff is a tax levied on imports only. The General Agreement on Tariffs and Trade ("GATT") limits a nation's right to raise tariffs. \textit{General Agreement on Tariffs and Trade,}\textsuperscript{38} Oct. 30, 1947, art. II, T.I.A.S. No. 1700. Countries frequently ignore their obligations, such as the United States did in the 1960s when it raised the tariff on trucks to twenty-five percent in a dispute with Europe over U.S. chicken exports. The recent battle over whether to apply punitive tariffs to Japanese minivans was an attempt to protect the domestic auto industry. \textit{See BOVARD, supra} note 35, at 31.

\textsuperscript{37} A quota is a quantitative restriction on imports. The United States has country-by-country quotas on sugar. \textit{David Tarr & Morris Morkre, Aggregate Costs to the United States of Tariffs and Quotas on Imports, in THE NEW PROTECTIONIST THREAT TO WORLD WELFARE} 221-23 (Dominick Salvatore ed., 1987).

\textsuperscript{38} A free trade agreement between the United States and Canada went into effect in 1989 and a similar agreement is being negotiated with Mexico. The Trade Act of 1974 also contains provisions designed to restrict imports.

\textsuperscript{39} Some economists argue that the benefits of import restrictions are concentrated and the costs are dispersed. \textit{See generally JAMES BOVARD, supra note 35.}

\textsuperscript{40} The United States has also used voluntary restraint agreements, such as the Voluntary Export Restraints Agreement with Japan in 1981.

\textsuperscript{41} The United States has also used voluntary restraint agreements, such as the Voluntary Export Restraints Agreement with Japan in 1981.
agreements ("VRAs"),\textsuperscript{38} orderly marketing agreements,\textsuperscript{39} as well as nontariff barriers ("NTBs").\textsuperscript{40}

The debates over these measures are frequently bitter.\textsuperscript{41} The stakes are large, not only monetarily but also in terms of human suffering and individual dignity. The dilemma arises because globalization injures some workers and increases the harm to the nation as a whole from the intervention that would alleviate the injury to those directly and adversely affected.

A. THE CASE FOR TRADE POLICY

The harmful adjustments brought about by globalization are concentrated on the poorer members of society. Globalization puts people out of work, reduces the wages of many by pushing them from the manufacturing to the service sector, and swells the ranks of those living in poverty. By accelerating income inequality at a time of little income growth, globalization raises the specter of the United States becoming a two-class society with only rich and poor. Such a possibility is not only terribly frightening for the poor, it is anathema for most Americans.

\textsuperscript{38} These are agreements by foreign governments to limit exports at the request of the U.S. government. VRA's are often undertaken under the threat of trade restrictions. The agreement by the government of Japan to limit annual car exports to the United States to 1.68 million vehicles a year is the most well-known. \textit{Id.} at 220-21.

\textsuperscript{39} The best known example is the Multi-Fiber Arrangement, under which the United States restricts textile imports from forty countries. \textit{Bovard, supra} note 35, at 36.

\textsuperscript{40} Because of the success of GATT in reducing tariffs and restricting the use of quantitative restrictions, protectionist pressures frequently surface through NTBs, which are comprised of a variety of policies that burden imports. Among the most colorful of these are Japan's insistence on checking tulip bulbs for disease by cutting their stems vertically down the middle, and France's insistence in the early 1980s requirement that all videocassette recorders be imported through one small, inland, and understaffed custom-house. \textit{Jagdish Bhagwati, Protectionism} 69 (1988); David White,\textit{Potiers Keeps Video Invaders at Bay with Gallic Sangfroid}, \textit{Fin. Times}, Nov. 19, 1992, § 1, at 1. More common and more controversial are import restrictions based on environmental or health concerns. For example, is an EC prohibition on beef treated with a growth hormone commonly used in the United States designed to protect the health of EC consumers or the purses of EC ranchers? Similarly, is the move to restrict U.S. imports of Mexican goods, the manufacture of which pollutes the Mexican environment, intended to protect the Mexican environment? Such measures pose the conflict between legitimate domestic regulatory ends and impermissible protection for domestic industries.

Unemployment and lower wages force people to reduce their living standards. But it does more—it threatens their sense of self. For many Americans much of their identity is tied to their jobs and to their ability to provide for their families. Job loss and reliance on public assistance or charity can be devastating. Protecting domestic industries permits these people to keep their jobs, provide for their families, remain productive, and stay off the dole.

Those suffering will not only be displaced adults but their children as well. The children, of course, are innocent victims, but so are the adults. Many never had the opportunity to attain the skills that could have led to higher paying jobs. Even those who chose not to pursue the high skills path did not anticipate what has happened. They entered the workforce, whether in the manufacturing or service sector, with the anticipation of secure and steady employment and confident of maintaining their middle-class lifestyles. The world threw them a curve. Of course, not all expectations are entitlements and not all harms can be alleviated. Even so, when the result is that the rich get richer and the poor get poorer, we cannot sit idly by and do nothing to alleviate the suffering.

Furthermore, given the positive correlation between the education, status, and income of parents and their children, the negative repercussions threaten to continue for a long time. The evil is exacerbated by a national history of racial and ethnic oppression that denies equal opportunities to a large share of the population. Accordingly, to lock in the status quo is to perpetuate earlier and continuing wrongs.

B. THE CASE AGAINST TRADE POLICY

Import restrictions are the traditional tool for protecting domestic workers from the harmful effects of international trade. By raising prices import restrictions harm consumers and downstream producers. Not only are such policies inefficient, they are difficult to justify on distributive grounds. Because the poor spend a larger share of their income than the rich, the impact of higher prices is greater on the poor. In addition, workers for downstream producers are harmed by import restrictions. They stand to lose their jobs or see their incomes fall and are presumably as deserving as workers in import-competing industries. Furthermore, because import restrictions also reduce exports, such restrictions will

43. They are. When harm is measured in terms of willingness to pay, the harm to consumers exceeds the gains to the protected workers and capital.
reduce jobs in the export sector. The individuals who are directly and adversely affected by globalization are easy to identify; those hurt by slowing or reversing globalization are harder to identify but their injuries are no less real nor are they any less worthy.

Trade policy intervention is also shortsighted. A nation's standard of living ultimately depends on what it produces. Saving workers' jobs keeps them in industries where they are relatively less productive and prevents them from moving to jobs where they are more productive. The gain to the nation is the savings in short-term transition costs. The harm, however, persists indefinitely, as long as the industries continue to operate inefficiently. In a 1984 monograph, David Tarr and Morris Morkre estimated that the one-time adjustment costs from removing all tariffs and quantitative restrictions on automobiles, sugar, textiles, and steel would be $380 million. The annual benefits would be $9.29 billion, nearly twenty-five times as large. Moreover, although the costs would be incurred only once, the benefits would continue indefinitely. Expressed differently, the annual cost to the nation for each job saved in the steel industry is $81,700 whereas each job saved in the auto industry costs $225,000 annually.

Globalization has also changed the mix of imports and exports. Increasingly international trade is in intermediate goods, such as semiconductors and steel, which upstream producers provide to downstream producers in order to make final goods, such as personal computers and cars. The rapid expansion of trade in intermediate goods has occurred because globalization rationalized the production process for many goods.

The increasing importance of trade in intermediate goods further hampers the ability of policymakers to use the traditional tools of trade policy to protect jobs and industries. This is because raising the price of an intermediate good will reduce the competitiveness of downstream producers. Without foreign competition the higher input price leads to an

44. Before the Civil War, the import-competing industrial North favored higher tariffs; the exporting agricultural South favored lower tariffs. The Southerners understood that higher tariffs would reduce demand for their exports. JOHN DOBSON, TWO CENTURIES OF TARIFFS: THE BACKGROUND AND EMERGENCE OF THE U.S. INTERNATIONAL TRADE COMMISSION 49-56 (1976).
45. The mean tariff was 3.7 percent ad valorem. Tarr & Morkre, supra note 37, at 218.
46. They considered only restrictions on textiles from Hong Kong, the largest foreign supplier of textiles to the United States. Id. at 223-25.
47. Id. at 221, 226.
increase in price and a fall in output at the next stage of production. However, with international competition in the downstream product market, the higher domestic price for the downstream product will result in increased imports. The price of the final product will not increase as much, but domestic production of the downstream product will fall further. A good example of this phenomenon is the semiconductor arrangement between the United States and Japan, which, by raising the price of semiconductors in the United States, has been blamed for reducing the competitiveness of the semiconductor-intensive U.S. computer industry. 49

C. OTHER ISSUES

The tendency for globalization to intensify debate is not limited to questions of trade policy. It influences the debate over a wide range of issues that pit economic incentives against equality. For example, the recently enacted family leave bill 50 illustrates this conflict. Proponents argued that the bill was needed to protect workers who could not take time off from work to care for ill family members or newborn children for fear of losing their jobs. 51 Opponents, in contrast, argued that the bill would hurt business and ultimately workers by requiring that businesses keep jobs open for those on leave for prolonged periods of time. 52 The debate was intensified by global competition. Globalization made the need for a family leave bill more pressing because declining wages have forced many to enter the workforce to make ends meet. 53 On the other hand, globalization raised the costs of burdening business, because the additional burden would allow foreign competitors to increase exports further reducing domestic production. 54

The family leave bill is not the only debate affected by globalization. Debate over a legion of redistributive issues and social programs has

49. Because Japanese computer companies could obtain semiconductors more cheaply than their U.S. counterparts, they made substantial gains on their counterparts. Arthur Denzau, Trade Protection Comes to Silicon Valley 3-6 (Ctr. for the Study of Am. Business Formal Publication No. 86, 1988).

50. The family leave bill requires employers of 50 or more persons to provide their employees with up to twelve weeks of unpaid, job-protected leave to care for a family member or because of their own illness. Family and Medical Leave Act of 1993, Pub. L. 103-3, 107 Stat. 6 (1993).


52. Id. at 31 (comments of Senator Slade Gorton (R-WA)).


54. Pros & Cons, supra note 51, at 15 (comments of Senator Orrin Hatch (R-UT)).
intensified. The conflict results from the increased need for help and the increased cost of providing that help through regulation.

Income inequality increased by globalization will also exacerbate existing tensions in preferential hiring and admission programs. Widen­
ing income inequality raises the value of being admitted to a prestigious school or of getting a prized job. It thus raises the stakes of affirmative action: The beneficiaries stand to gain more and those who feel wrongly excluded stand to lose more. Given the divisive views that already exist, raising the stakes will make a consensus harder to reach and the debate more volatile.

One possible response to the increased income inequality brought about by globalization is to reverse the impact through redistributive income taxes. Economists widely recognize that such a response is less disruptive than trade restrictions because it interferes less with individuals' production and consumption choices. Although tax policy is less disruptive than trade policy, it is still disruptive. In order to reverse the income allocative effects of globalization, the tax burden on lower bracket individuals will have to be reduced and the burden on higher bracket individuals will have to be increased. In short a more progressive tax regime would be necessary. Although it is obvious that a more progressive tax regime would reduce income inequality, it is also true that greater progressivity would increase the disruption imposed by the tax system. For example, a more progressive income tax schedule would blunt the economy's signal to those choosing careers by raising the wages of less productive employment and reducing those of more productive employment. These and other social tensions exacerbated by globalization are likely to manifest themselves in economically diverse areas where winners and losers are close together, like Los Angeles.

55. SAMUELSON & NORDHAUS, supra note 19, at 687.
56. Id.
57. The point is not simply that a progressive income tax schedule instead of a flat one would be necessary, but that globalization makes a more progressive tax schedule necessary to achieve the same distribution of after-tax income.
59. The conflict between improving investment incentives and reducing economic inequality are illustrated in the debate over President Clinton's proposed tax reforms. See Nobelistls Rate Clintonomics, WALL STREET J., March 23, 1993, at A14.
V. CONSEQUENCES FOR AMERICAN BELIEFS

Like every country, the United States has a culture of secular beliefs. Some are more myth than reality; others are more real. Whether mostly fact or fiction, these beliefs developed over many years when the U.S. economy was more isolated than it is today. These beliefs are important for several reasons. They define who we are: We are a nation with a broad middle class. They also inform our expectations: The standard of living of each succeeding generation exceeds that of preceding generations. Frequently, the basis for the belief is forgotten by the public, which only remembers the belief. Unfortunately, globalization has eroded the economic conditions upon which many of these beliefs are based. The impact of globalization on these beliefs is described below.

The consequences for some of these beliefs are obvious. As a result of stagnant income growth, Americans are no longer confident that their lives will be materially richer than those of their parents.60

Globalization is also changing the picture of America as a nation with a broad and growing middle class. Statistics cited at the beginning of this Essay61 underscore a threat to the existence of a broad middle class. “Middle class” is not a statistical concept, defined by a relative position in a distribution, but a standard of living. It is the ability to afford the basic items of a middle-class lifestyle.62 Defined this way, most Americans view themselves as part of the middle class. However, the number that can maintain that lifestyle has been falling.63

A. THE ROAD TO THE GOOD LIFE

In the United States, which has a large portion of highly educated people and many of the best educational institutions in the world, an education has long been viewed as a path to the middle class and beyond. Even so, education has not been viewed as the only road to the American Dream of a middle class lifestyle. One could enjoy that lifestyle without attending college. The worker with a small suburban house, a car or two in the driveway, and perhaps a boat, is part of the post-World War II American landscape.

60. PHILLIPS, supra note 15, at 167-92.
61. See supra notes 4, 5, & 15.
62. Levy & Murnane, supra note 5, at 1338.
Although college is not the guarantee of success that it once was, the cost of not going to college has increased.\(^4\) Because of globalization, which tends to place workers around the world with similar skills into the same pool for wage determination, fewer U.S. workers are able to afford a middle-class lifestyle.\(^5\) The reduced opportunities for low skilled workers to enjoy a middle-class lifestyle forecloses one road to the middle class: finish high school, keep your nose clean, and get a good job. It is no longer enough to slide through school without receiving either a basic or vocational education. Instead, workers will need to have more skills, whether learned in school or on the job, to achieve a middle-class lifestyle.\(^6\)

B. A NATION OF IMMIGRANTS

No country but the United States could have as an icon the Statue of Liberty with the inscription from Emma Lazarus: “Give me your tired, your poor, your huddled masses . . . .” For most Americans, including the author, the United States provided our poor ancestors with an opportunity to make a better life. Without that opportunity many of us might never have been born or would be living in harsh and oppressive conditions. Although there have always been some Americans who want to curtail immigration severely to keep out others who are different, many find troubling the thought of denying others the opportunities our ancestors were fortunate to have had.

Although all the data are not yet in, many observers believe that poorly educated, poorly skilled citizens and residents suffer most from immigration. Because, relative to the existing population, the new immigrant population is less educated and has fewer marketable skills,\(^7\) immigrants not only compete with similarly situated citizens and residents for jobs, but the additional labor tends to hold down wages for the poor.\(^8\) In contrast, the wealthy benefit from the influx because highly skilled workers and minimally skilled workers do not compete with each

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\(^4\) Levy & Murnane, supra note 5, at 1356-57.

\(^5\) The squeeze comes about because higher wages would mean higher prices for domestically produced goods. However, foreign competition prevents prices from rising because demand for a company’s product would be sharply reduced. As a consequence, real wages fall, pushing many workers out of the middle class and creating few opportunities for the next generation.

\(^6\) Between 1979 and 1987, the proportion of male high-school graduates between 25 and 34 who earned more than $20,000 (in 1988 dollars) fell from 57% to 46%. Levy & Murnane, supra note 5, at 1353 n.60.

\(^7\) Id. at 1359 (citing Borjas et al., supra note 25).

\(^8\) See Bound & Johnson, supra note 15, at 83-84.
other for jobs. Instead, to the wealthy, minimally skilled immigrants are an inexpensive source of labor providing services more cheaply.

Further restricting immigration would reduce the population of less educated workers. As a result, the wages of less educated workers would likely rise, and thereby their standard of living. It, of course, would be desirable to improve living standards without further restricting immigration, but that might not prove feasible. If it is true that the poorly educated bear most of the brunt of immigration, we are faced with a difficult choice between further restricting immigration and improving the standard of living of the resident poor.69

C. A CLASSLESS SOCIETY AND COMMUNITY

Perhaps our most cherished secular myth is that the United States is an egalitarian, classless society. A well known recent expression of this myth was the statement by then-President Bush, a child of the upper crust, that class and privilege belong to the Old World, not to the New.70 Of course, class differences exist in the United States as they always have.71 Globalization did not create class differences, but it has been widening the economic gap between classes.72 Because growing economic inequality translates into lifestyle differences with fewer shared experiences, globalization makes class differences more pronounced. It also makes the U.S. class structure more rigid because the shrinkage in middle-class jobs is reducing opportunities to join the middle class.

By exacerbating class differences, globalization is also threatening our sense of community. The slow growth in per capita income and widening income inequality create the perception that interests across classes are no longer aligned. Of course, there have always been both shared and divergent interests, but declining opportunity creates an environment in which people fearful of the future will grab what they can now. It also creates the perception that what one consumes comes at the expense of others.73 Thus, because ethnic, racial, and religious ties are

71. For a description of the important role class plays in the United States, see BENJAMIN DEMOTT, THE IMPERIAL MIDDLE: WHY AMERICANS CAN’T THINK STRAIGHT ABOUT CLASS (1990).
72. For example, in 1989 the income share of the top one percent of the U.S. population rose from 8.3 percent in 1977 to 13.0 percent, while that of the middle quintile fell from 16.3 percent to 14.7 percent. KEVIN PHILLIPS, supra note 15, at 277.
73. For the classic statement of this proposition, see LESTER THUROW, THE ZERO-SUM SOCIETY: DISTRIBUTION AND THE POSSIBILITIES FOR ECONOMIC CHANGE (1980).
strong, declining opportunity and slow economic growth encourage polarization thereby weakening our community. Moreover, the frictions between groups are likely to erupt in urban areas, such as Los Angeles, with heavy concentrations of different racial, ethnic, and religious groups.

D. A STABLE DEMOCRACY BASED ON A STAKE FOR ALL

A notion related to the large American middle class is that our republican form of government is supported by a population with a strong interest in national policies. A stable democratic government can only be built around an informed citizenry with a stake in society. The key is the stake. It provides the incentive to be informed and the perception, if not the reality, of alignment of interest. It also introduces a certain conservatism, an opposition to fundamental change, that makes for stable government. The fear is that if inequality continues to grow, stratification and polarization in the U.S. economy, by creating social and political turmoil, will produce a chronically unstable government.

VI. NEW THINKING: HIGH-SKILLS STRATEGY

The need to ameliorate the suffering caused by globalization and the realization that traditional trade policy instruments have many harmful side effects have forced policymakers to look elsewhere for solutions. The realization that in the long run a society’s standard of living is determined by its level of productivity has led many observers to conclude that the way to raise living standards is to raise worker productivity by improving workers’ skills. Although recognizing that a more skilled workforce could ameliorate the harms from globalization is easy, achieving that result is not.

The prospects for improving the skill of existing workers and future workers differ. Existing workers who have lost their jobs because of changing global trade patterns have a variety of retraining programs available to them. Unfortunately, however, these programs have poor track records, insufficiently compensating workers for their lost income and actually delaying adjustment by discouraging workers from taking

74. “Ethnic, racial and religious tensions in the United States have typically accompanied hard times as individuals and groups worry about lost jobs, declining incomes and competition for scarce rewards.” PHILLIPS, supra note 15, at 237.
75. See id. at 236-44.
new jobs at lower wages. Although these programs have a lot of room for improvement, it is unreasonable to expect that most displaced workers will find new jobs at their old wages. Even with a vastly improved adjustment assistance program, many will only be able to find jobs at reduced wages.

Future workers provide cause for both optimism and concern. The reason for optimism is because it is easier to train than to retrain, and with many more working years ahead of those not yet in the workforce, education and training are better investments for both them and society. Thus there is a good opportunity to provide individuals not yet in the workforce with the necessary skills. The reason for concern is the dire state of public education. Moreover, because primary and secondary education programs last twelve years, it is unlikely that the economic trends can be reversed soon, even if education is improved immediately.

The threat facing the United States is not only economic stagnation but a continuing trend of slow economic growth and widening income inequality. Unless we create a more productive workforce, from the skilled to the unskilled, there may come a day when the United States has a somewhat larger elite, a much smaller middle class, and many more poor. Unless these trends are reversed, the conflicts described in Section IV will continue to intensify and the secular beliefs described in Section V will be further challenged.

VII. CONCLUSION

There is much in the Los Angeles riots of 1992 that is unique to African-Americans. There are, however, other aspects that cut across racial lines. Among the most important of these are the economic challenges and frustrations facing less educated Americans. These frustrations show no signs of abating. They are in part caused by powerful global forces and are likely to continue. The globalization of the U.S.

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78. ROBERT LAWRENCE & ROBERT LITAN, SAVING FREE TRADE: A PRAGMATIC APPROACH 52 (1986).


80. The need to encourage investment and training suggests another possible conflict—between initiative and compassion. Although these two values are not contradictory, in a world of sound bites and simple messages they might not coexist easily. It becomes too easy to confuse the results of a lack of initiative with those of ill fortune or discrimination. The myth that the United States is a classless society causes many people to attribute incorrectly lack of success to personal failings instead of to class-based hurdles. See DEMOTT, supra note 70.
economy has reduced the market demand in the United States for unskilled and marginally skilled workers, driving down the incomes of the less educated segment of the population, forcing some out of the middle class, and making it more difficult for others to lead a middle-class lifestyle. Thus, unless the skill level of the less educated segment of the U.S. population is significantly improved, globalization threatens to further erode living standards and exacerbate wealth differences. If so, such violence will become more common. 81 Although the threat is greatest in minority communities, no portion of the nation is immune. 82

On an abstract level, globalization highlights the clash between two competing groups of policy norms, those relating to economic efficiency and those relating to fairness, as measured from a domestic perspective. 83 Perhaps because globalization is primarily an economic process, the economic consequences of globalization have been more thoroughly studied than its social and political ramifications. Of course, integration into a global marketplace has important consequences for U.S. society above and beyond what it means for the U.S. economy. This Essay raises some of these noneconomic consequences; they deserve more attention.

More generally, this Essay illustrates a commonly observed phenomenon: Neither normative nor positive analysis alone can generate useful policy prescriptions. Normative analysis focuses on the question of what should be done; positive analysis on the constraints on what can be done. To meet the challenges ahead, it will be necessary to draw on both normative and positive analyses.

82. This point was made by Bill Clinton as a presidential candidate. Arsenio Hall Show (television broadcast, June 3, 1992).
83. Looking at globalization from an international perspective cautions against reversing the trend of rising domestic inequality in ways that would increase global inequality. Thus, restrictions on trade, capital flows, and technology transfer are likely to be normatively undesirable because of their harmful international effects. A global perspective would also caution against tightening immigration, even if such a restriction benefited the poorest Americans, because of the harm to even poorer immigrants. Such a perspective might also place little value on weakening the sense of an American community, especially if the sense of a world community were strengthened.

There are two reasons for the indefiniteness expressed above. First, the analysis is static, not dynamic. Second, there are other normative principles of entitlement besides reducing inequality which require consideration.