



Cornell University  
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## Labor Research Review

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Volume 1 | Number 13  
*Solidarity Across Borders: U.S. Labor in a Global  
Economy*

Article 2

1989

### World Trade & U.S. Jobs

David Bensman

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## World Trade & U.S. Jobs

### Abstract

[Excerpt] It has become obvious to everyone in and around the U.S. labor movement that our problems involve the global arena. Hundreds of thousands of trade unionists have seen their employers shut down plants and shift production overseas. Countless union negotiators have seen the boss play the foreign card at contract time: "You have to give concessions to meet the foreign competition."

U.S. trade unionists are a diverse lot, and they have come up with numerous interpretations of the international challenge. But, in practice, the primary way the U.S. labor movement has responded to the internationalization of labor relations has been to push for protective legislation against the unfair trading practices of foreign nations.

This article takes a different tack. While it is true that unfair trading practices have deepened America's economic problems, our trade deficit is itself a symptom of a deeper problem – global economic stagnation – that afflicts not only American workers but workers all around the world.

The world economic situation now resembles that of the 1930s, when farmers dumped surplus food on the highways and factories lay idle because ordinary working Americans could not afford to buy what they produced. Today this crisis of underconsumption has returned – but on a global scale.

As long as the world's workers can't afford to buy what they produce, competition for markets will remain feverish, trade wars will spur demands for protectionism, and workers will continue to find themselves under severe pressure to restrain their wage demands. The restoration of "fair trade" is desirable, but in itself it is no solution to the fundamental crisis of underconsumption caused by workers' lagging spending power.

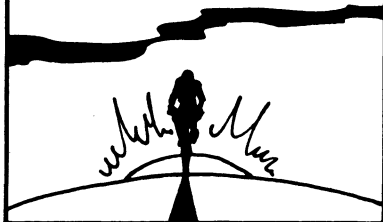
### Keywords

globalism, austerity, internationalism, fair trade

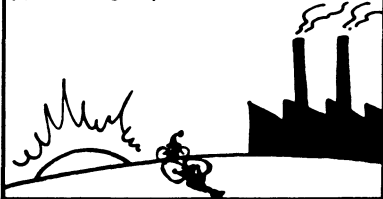
LEE DONG GI WORKS FOR  
DAEWOO, A SOUTH KOREAN  
COMPANY, 50% OWNED  
BY GM.



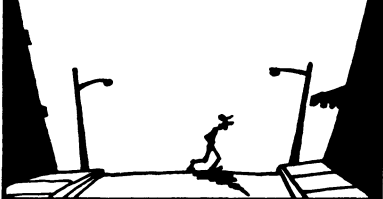
LUCKY LEE GETS TO  
WORK 60 HOURS A  
WEEK FOR \$96.00.



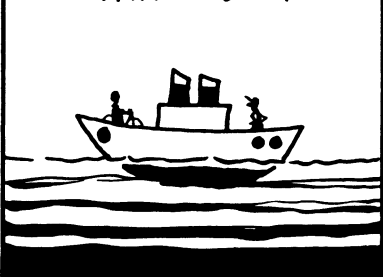
WITH WAGES THIS LOW,  
LEE CAN'T AFFORD TO BUY  
THE CAR HE MAKES SO  
HE RIDES A BIKE TO WORK.



THIS IS BUD JONES, A  
LAID-OFF GM WORKER.  
HE CAN'T AFFORD TO  
BUY A CAR EITHER.



BUD AND LEE ARE IN  
THE SAME BOAT.



IT'S CALLED INTER-  
NATIONAL AUSTERITY.



INTERNATIONAL  
AUSTERITY  
**SUCKS!!**



# World Trade & U.S. Jobs

■ *David Bensman*

It has become obvious to everyone in and around the U.S. labor movement that our problems involve the global arena. Hundreds of thousands of trade unionists have seen their employers shut down plants and shift production overseas. Countless union negotiators have seen the boss play the foreign card at contract time: "You have to give concessions to meet the foreign competition."

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As long as the world's workers can't afford to buy what they produce, competition for markets will remain feverish, trade wars will spur demands for protectionism, and workers will continue to find themselves under severe pressure to restrain their wage demands. The restoration of "fair trade" is desirable, but in itself it is no solution to the fundamental crisis of underconsumption caused by workers' lagging spending power.

### **The Limits of Trade Protection**

Over the last 20 years, American unions have shifted from being the most free-trade oriented labor movement in the world, to being strongly protectionist. While many labor proposals for trade legislation to save U.S. jobs have been defeated, successive administrations have adopted such measures as the Multi-Fiber Agreement that limits textile and garment imports, Voluntary Restraint Agreements in the steel and auto industries, and worker rights provisions in a number of trade laws.

U.S. labor's swing to protectionism is justified as a form of self-defense: America's leading trade partners have adopted far more protectionist policies than has our own government. As Table I indicates, more than half of the U.S. trade deficit resulted from trade imbalances between the U.S. and Western Europe (17% of the U.S. deficit) and the U.S. and Japan (36% of the deficit). Western Europe has tightly limited significant parts of its market ever since World War II, in order to protect key industries such as auto, steel, and computers. Most European countries have all but prohibited imports of automobiles from outside the continent, for example.

One result has been that Ford and General Motors have had to build plants in Europe for sales on the continent, rather than exporting American-built cars from factories that employ U.S. workers. A second result is that the Japanese, finding themselves barred from exporting to Western Europe, have targetted the great bulk of their auto exports to the United States. Today Japanese auto manufacturers make more of their profits in the U.S. than in Japan or anywhere else in the world.

Japan has gone to even greater lengths than Western Europe to close its domestic market. In agriculture, for example, despite the fact that Japanese farmers are high-cost producers, the government keeps most food imports out of the country. When it comes to

**Table I****Composition of U.S. Trade Deficit**

(1987, in billions of dollars)

	Imports From	Exports To	Trade Deficit	% of Deficit
<b>Advanced Industrial Countries (AICs)</b>	<b>\$259</b>	<b>\$166</b>	<b>\$93</b>	<b>59.2%</b>
Japan	85	28	57	36.3%
W. Europe	96	69	27	17.2%
Other AICs	78	69	9	5.7%
<b>Newly Industrialized Countries (NICs)</b>	<b>\$86</b>	<b>\$42</b>	<b>\$44</b>	<b>28.0%</b>
Taiwan	25	7	18	11.5%
S. Korea	17	8	9	5.7%
Hong Kong	10	4	6	3.8%
Mexico	20	15	5	3.2%
Brazil	8	4	4	2.5%
Singapore	6	4	2	1.3%
<b>All Other Countries</b>	<b>\$64</b>	<b>\$44</b>	<b>\$20</b>	<b>12.8%</b>
<b>TOTALS</b>	<b>\$409</b>	<b>\$252</b>	<b>\$157</b>	<b>100%</b>

manufactured goods, Japan flouts the international free trade agreements (GATT) to which it has long been a party. Because Japanese companies are members of large industrial blocs, which tie together financial services, suppliers, manufacturers, and trading companies, firms like Toyota and Sony prefer to buy their supplies from allied companies, rather than from abroad. Their bias against imports is encouraged by MITI, the Japanese trade ministry, which targets industries whose growth and prosperity are deemed essential to the nation's economic vitality. Targetted industries, such as semiconductor manufacturing in the late 1970s and early 1980s, where U.S. firms like Texas Instruments and Intel once had a big lead, are provided cheap capital, protection against imports, and subsidies for exports. With such help, they soon become world leaders.

At the same time that Western Europe and Japan restrict access to their home markets, transnational corporations, mostly based in the U.S., Western Europe and Japan, and funded by transnational financial institutions, have established myriad manufacturing plants in low-wage Third World countries. Because Western Europe and Japan restrict access to their markets, the bulk of these Third World exports go to the United States. As Table I indicates, in 1987 American imports from six newly industrialized countries

(NICs)—Mexico, Brazil, Taiwan, South Korea, Hong Kong and Singapore—totalled \$86 billion and accounted for 28% of our trade deficit.

In short, the U.S. has become a dumping ground for goods that cannot be sold anywhere else. American industrial workers have turned to protectionism in self-defense. But while labor's protectionist stance is justified, it does not and cannot work very well in the long run for two reasons.

First, a powerful array of domestic interest groups oppose the extension of protective trade legislation. Transnational manufacturing, trading and financial corporations, eager to expand their overseas operations, are a potent Washington lobby. American farmers, desperate to increase their exports, oppose restrictions on manufacturing imports for fear of retaliation from our trading partners. Millions of American workers in the service sector who process, distribute, and retail imports have no interest in restricting the trade on which their jobs depend. Millions more workers in export-oriented industries, like computer manufacturing, arms production, pharmaceuticals and chemicals, do not share the goals of those endangered by unchecked imports. Finally, those who think of themselves more as consumers than as workers oppose trade legislation that might raise prices. The power of this coalition of interests is reflected in the fact that protectionist trade legislation has been passed only piecemeal, and our nation's trade negotiators have repeatedly bargained away the jobs of workers imperilled by other nations' trade practices.

Labor's protectionist stance confronts a second problem as well: it jeopardizes efforts to achieve international labor solidarity. If American workers constantly push to keep out products from Brazil, France, Sweden or Korea, how will they ever be able to join with workers around the world in common struggle against transnational corporations which as a matter of conscious policy attempt to play one nation's labor force against another's? If we exclude Korean automobiles from American markets, how can we make common cause with the Daewoo auto workers whose plants are 50% owned by General Motors?

### **The Root Problem: Slow Worldwide Growth**

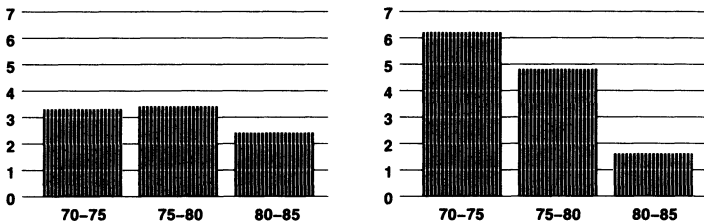
A third weakness of protectionism as a solution for America's job and income crisis is that it treats unfair trade practices as the *cause* of our problems, instead of seeing those practices as a symptom of a deeper problem—slow worldwide growth. Over the last 15 years, one nation after another has erected trade barriers

**Figure 1****World Economic Growth 1970–1985**

Industrialized Countries

Underdeveloped Countries

(percent per year)



around their own borders, while at the same time promoting export-oriented production. The cause of the resurgence of protectionism worldwide is that over this same 15-year period, economic growth around the globe has slowed dramatically. While economic growth approached 5% annually over the years 1948-73, it has averaged half that in the last decade and a half (see Figure I).

While the demand for industrial goods stagnated, worldwide industrial capacity expanded. Transnational corporations built new facilities in low-wage regions in an effort to maintain their profitability. Many Third World nations created export-oriented industries subsidized by international lending agencies, in a desperate effort to gain foreign exchange needed to pay for rising energy costs.

The combination of stagnant consumption and expanding productive capacity created a crisis of underconsumption: Workers' spending power was too small to buy what they could produce. This crisis forced down the wages of workers all over the world, triggered the liquidation of thousands of factories in the United States and Europe, and stimulated an intense global trade war.

### The Global Debt Crisis

A major cause of global stagnation has been the debt crisis. In the late 1970s, when the industrial nations decided to slow down the growth of their money supplies and to increase interest rates in order to slay the inflationary dragon, the interest rate hikes pushed much of the Third World near to bankruptcy. In many "developing countries," including most of Africa, Central America and the Caribbean, economic growth has come to a virtual halt as international sources of capital to fund new investment have



closed their doors. As a result, these regions have been unable to increase their imports of manufactured goods from the U.S., Western Europe and Japan. American workers once manufactured tractors and earth movers for use in road-building projects in Liberia, Jamaica, or Guatemala; today, such projects have been cancelled, and the factories that produced those tractors are shut down.

A few Third World countries—Mexico, Brazil, and the Philippines, for example—were encouraged by the principal international lending agencies, the International Monetary Fund (IMF) and the World Bank, to solve their debt crises by building up export industries. But the loans that financed this growth had strings attached: the developing countries had to impose austerity on their populations. Increased export earnings in these countries have not gone to increase workers' spending power and thus develop the local economy—they've gone to repay the banks.

In the 1980s, total exports of American manufactured goods to Latin America actually decreased by 5%. This is a remarkable figure considering that the export-oriented plants being built in some Latin American countries were substantially *increasing* their purchases of American machinery in order to boost capacity. Clearly, Latin American imports of *consumer* goods fell drastically. Or to put it simply, under the austerity programs imposed by the IMF and World Bank, Brazilian workers who make shoes for sale in the United States can't afford American refrigerators or washing machines.

### **Continuing Poverty in the NICs**

The trade imbalances caused by the debt crisis were made worse by the second cause of the global crisis of underconsumption—the promotion by transnational corporations of duty free zones in the newly industrialized countries (NICs). In these enclaves, workers are paid extremely low wages to manufacture goods (which they cannot afford to buy) for export to the rich nations. Over the past 15 years, European, Japanese and American transnationals have worked closely with local governmental authorities to establish export-oriented manufacturing industries on the Pacific Rim—Taiwan, Korea, Indonesia, Malaysia, Hong Kong, the Philippines, Singapore, and Thailand—as well as in the Caribbean, Latin America and Africa. In addition, transnational banks have financed thousands of locally-owned firms to set themselves up in the export business.

Initially these export-oriented factories were sweatshops, using obsolete technology to produce low-quality, low-priced merchan-

dise that was profitable only because of the abysmally low wages paid to workers. Over time this has changed; now modern manufacturing plants employ the latest technology, and computers link the central offices of Japanese, European and American firms to production lines in Kuala Lumpur, Taipei, Sao Paolo, Tunis and the Mexican border cities.

Cheap labor, low taxes, and freedom from environmental and other regulations are the main attractions these export enclaves hold for transnational corporations. Manufacturing processes ruled too unhealthy for American workers are routinely carried out by teenagers in Taiwan and Mexico. On July 2, 1988, in Seoul, South Korea, Moon Song Myun died at age 14 from mercury poisoning he contracted in an instrument manufacturing plant. Three months earlier, the Labor Ministry had refused him industrial disease-related medical assistance. He was one of at least 142,000 Korean workers who were killed or seriously injured by industrial accidents last year. Indeed, more than 2% of Korea's workforce is seriously injured or killed in industrial accidents every year.

The hunger of Third World governments for foreign investment causes them to offer extraordinarily sweet tax deals to the transnationals. But low wages remain the largest inducement to transnational investment in the export enclaves. While manufacturing workers in the U.S. earn more than \$10 an hour on average, in Korea the corresponding figure is \$1.43. Although one might expect the local governments to push the transnationals to raise wages in order to boost their domestic purchasing power, the reverse is true. Bayonets and prisons keep labor cheap and transnationals coming back for more. Taiwan, the newly industrialized country in which wages have risen most, doubling over the past four years, has lost hundreds of plants to the lower-wage competition of Malaysia, the Philippines, Thailand, and Indonesia.

### **The Austerity Agenda at Home**

The third cause of the crisis of insufficient worker spending power lies closer to home. For the last 20 years, the U. S. and Western Europe have battled inflation by imposing austerity on their domestic economies. Ever since President Nixon engineered his first recession in 1969, the world's richest nations have been sacrificing economic growth in order to kill the spectre of rapid inflation. As a result, the West's unemployment rate in the years 1970-88 has been more than twice the level of the years 1948-68, while the growth of gross national products has declined by more than half.

In the years 1979-83, when austerity politics was at its fiercest,

the Western governments attempted to limit the growth of their domestic money supplies in the expectation that this would produce low inflation and slow but steady economic growth. This policy, called monetarism, produced unprecedentedly high real interest rates (the difference between the interest rate and inflation), which crippled not only the housing industry and auto sales, but also the debtor nations of the Third World. Twice, in 1979 and 1981, high interest rates plunged the world into steep depression. And real interest rates remain at record-high levels. In early 1989, real interest rates were 5%, higher than in any year from 1930 to 1979. These high rates choke off productive investment, burden Third World debtor nations with unmanageable interest payments, and stimulate the speculative financial excesses that dominate the business pages of newspapers in New York, London, Tokyo, Paris and Bonn.

### **A Labor Program: Raising Workers' Spending Power Worldwide**

According to the conventional wisdom, American workers are losing jobs and spending power because American industries have become uncompetitive in global markets. The remedy, this argument goes, is for workers to cooperate with corporate leaders through wage restraint and the relaxation of work rules. The upshot of this argument is that we can become more "competitive" only by reducing our living and working standards. But if the problem is not "competitiveness" but global underconsumption, then this conventional program will just make matters worse.

And if the global crisis of underconsumption is caused primarily by poverty in the Third World, the growth of low-wage export enclaves in the newly industrialized countries and austerity politics in the developed nations, then any solution to the crisis will have to address all three problems. The American labor movement has a vital interest in pushing for such a solution.

### **Defusing the Debt Crisis**

In order to defuse the Third World debt crisis so that workers in the developing nations will be able to improve their living standards, three steps are vital. First, the international lending agencies must stop playing the role of the Grinch who stole Christmas. Not only are the IMF and the World Bank providing too few loans to the debtor nations, they are enforcing poverty wages on their workers. The developed countries and the wealthy OPEC nations should expand their funding of the IMF and the

World Bank, so that they can expand their lending. Even more important, these international agencies should be forced to abandon their austerity agenda so that workers' spending power can increase as economic growth quickens.

Second, a World Development Fund should be established to buy from international banks the Third World's existing private debt. Since these loans cannot be repaid under their current terms, the banks should be paid less than their full face value. The World Development Fund could then reschedule the debt at lower interest rates and over longer terms.

The Third World debt crisis is so large, however, that these two measures, by themselves, would fall short of enabling the debtor nations to resume economic growth and restore their workers' spending power. To solve the crisis, we need a new Marshall Plan, this one aimed at the Third World. Currently, the world's rich countries are not even meeting the foreign aid targets they agreed to in the 1970s. While the developed countries agreed to raise their aid levels to .7% of their GNPs, many remain far below that standard; in 1981, the UK was lending .44% of GNP, Japan .28%, and the U.S. only .2%.

If the rich countries agreed to a new Marshall Plan, they could channel their aid through the World Development Fund to support development projects aimed at stabilizing depressed agricultural regions, improving infrastructure, and building up domestically-oriented manufacturing industries.

These proposals may seem like pipedreams to Americans who have heard little serious discussion about how to defuse a debt bomb that could explode at any moment. But in Western Europe,

## Figure II

### Manufacturing Wages In Dollars Per Hour

(1987, converted by the exchange rate)

Mexico	\$ .97	■
Brazil	1.10	■
Korea	1.43	■
Hong Kong	2.04	■
Taiwan	2.12	■
United Kingdom	7.69	■
France	8.64	■
Japan	9.92	■
Sweden	10.57	■
United States	10.82	■
West Germany	13.16	■

there has been serious discussion of similar proposals from a prestigious international commission headed by former German Chancellor Willy Brandt in 1983. Although these proposals were favorably received by many European labor parties, they were all but ignored in Reagan-era America.

### **Solidarity with Third World Workers**

Defusing the debt crisis might enable Brazil and Mexico to resume internal development and boost workers' spending power, but it would have little impact on many other export-oriented newly industrialized countries. In Hong Kong, Korea, Taiwan, Thailand, the Philippines and Indonesia, repressive regimes depend on U.S. aid to impose austerity on their impoverished masses. If the American labor movement were to oppose American aid to these allied governments unless they allow their workers to organize effective labor unions, we could help them to raise their wages so that they could afford to buy the goods they produce, as well as some of our own products.

Second, as Matt Witt points out in another article in this issue, American trade law already contains provisions that call for sanctions against trading partners that violate internationally recognized labor rights. If American unions press for stronger enforcement of these provisions, we can add our weight in support of the efforts of Third World workers to increase their spending power.

Third, American labor can press for legislation that would make it less profitable for U.S.-based transnationals to invest in export enclaves. Favorable tax treatment for profits earned overseas should be eliminated as should federal insurance programs for foreign investment in countries with authoritarian regimes.

### **Toward a Global Growth Policy**

Finally, American labor must challenge the austerity politics that has prevailed in the developed world for more than a decade. Today, conventional wisdom holds that taxes must be raised and imports curtailed in order to bring the American budget and trade deficits in line. This is a recipe for global disaster, since large-scale reductions in American purchases of foreign products could plunge Third World debtor nations into bankruptcy, while stifling the Western European and Japanese economies as well.

There is an alternative to austerity politics: the U.S. could grow its way out of its budget and trade deficits. One important step towards renewed growth would be reducing interest rates in order

to stimulate productive investment at home, reduce the domestic budget deficit, and ease the Third World debt crisis. Thus, the U.S. could solve the problem posed by its huge trade deficit by boosting its exports rather than by cutting imports and reducing living standards.

These steps toward renewed growth require greater coordination between U.S. and foreign policymakers. The Federal Reserve could only reduce U.S. interest rates if Western European and Japanese central bankers agreed to reduce their own rates. And we could step up our exports without cutting imports only if Western Europe and Japan agree to pursue their own growth policies, while at the same time renewed Third World growth provided additional markets for American goods. Clearly, pursuing worldwide growth rather than austerity will require greater international economic coordination than currently exists. The labor movements in all of the advanced countries should take the lead in fostering this coordination for a growth agenda.

## **Conclusion**

The problems confronting U.S. industrial workers point to the need for American labor to adopt a trade policy that can win it allies at home and abroad. Such a policy would have to assure Americans that promoting jobs for industrial workers threatened by imports would not come at the expense of farmers, consumers, and employees of export-oriented firms. And it would have to reassure workers outside the United States that it is possible to promote job growth in the U.S. and abroad as well.

Does a policy favorable to workers both at home and abroad sound too good to be true? If it does, that may be a measure of how corrupting eight years of the political discourse of Reaganomics has been for all of us. If the world's nations abandon their beggar-thy-neighbor policies and adopt instead a coordinated growth policy, all the foreign exporters who have been targetting the U.S. as their dumping ground would soon find alternative markets. Domestic exporters would enjoy growing markets as well. The squeeze on American industrial workers would finally relax.

Adoption of a global growth policy not only makes political sense, it addresses the real causes of our problems. The stagnation in American workers' living standards is inseparable from the stagnation of living standards of workers all around the world. Raising our standard of living now requires that we work in solidarity with workers everywhere. ■