

## Just How Good Is Globalization?

Question Is Pondered  
By Key Leaders  
Amid Workers' Worries  
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The business and political leaders who gather every year at the World Economic Forum have long shared a creed: Globalization is good.

That still is generally true. But this year, many of them are questioning whether it is good for the ordinary wage-earning people they employ -- or in many cases, no longer employ -- at their companies.



A new refrain is emerging in Davos this year: **Globalization isn't working for everyone.** Stagnating wages and rising job insecurity in developed countries are creating popular disenchantment with the free movement of goods, capital and people across borders. If unchecked, popular fears could turn into a political backlash that could lead to protectionism -- or at least make broad free-trade agreements harder to achieve in the future.

"The anxiety is there, because we have competitors that didn't exist 10 or 15 years ago," German Chancellor Angela Merkel, who arrived in Davos yesterday, said in an interview last week. Governments in the developed world, she said, have to persuade their own middle class -- a group used to a relatively stable economy in the postwar decades -- to embrace a life of constant change and challenge.

In theory, less-developed countries win from globalization because they get jobs making low-cost products for rich countries. Rich countries win because, in addition to being able to buy

inexpensive imports, they also can sell more sophisticated products like machine tools or financial services to emerging economies.

"The first win is there, but the second win is going to the owners of capital rather than labor," says Stephen Roach, chief economist at Morgan Stanley.

Many companies in the U.S. and Europe have been able to squeeze workers' pay increases by threatening to move production abroad. In the past decade, real labor incomes in the U.S. have grown at roughly half the rate of labor productivity, Mr. Roach says.

The reason for this is simple: With the emergence of China, India and countries from the former Soviet bloc, companies from the established economies of North America, Europe and Japan have more choices on where to invest. That puts them in a stronger bargaining position with workers in their home countries.

"There is compression of wages as a result of the number of workers competing for jobs," says Laura Tyson, dean of London Business School. As a result, an ever-larger share of national income in the U.S., Japan and Western Europe is going to company profits. The share that flows to workers is dwindling, which explains why worker anxiety is becoming an election issue in the U.S. and elsewhere.

Others at Davos say the problem isn't capital versus labor, it is that changing technology and trade patterns put high-skilled workers increasingly in demand, reducing the demand for less-skilled workers. "Skilled workers are enjoying rapid wage increases, but unskilled workers have had very slow wage rises in recent decades," says Ken Rogoff, a professor of economics at Harvard University.

To be sure, many businesspeople in Davos believe the problem is one of perceptions, and that fears about trade undermining living standards in developed countries are misplaced.

"What can we do to educate politicians to the reality that a rising tide floats all ships?" asks E. Neville Isdell, chief executive of Coca-Cola Co. In politics, the voices of interest groups can outweigh the wider good, he says. "We have to develop a less academic approach to explaining the benefits of globalization."

Mr. Isdell hopes governments will make the case that when U.S. companies move some jobs to China, the resulting gain in productivity can create a larger number of new jobs at home. The irony of heightened anxiety over job security, he says, is that it comes at a time of low unemployment in the U.S. and other advanced economies such as the United Kingdom.

The problem, many participants agree, is that workers in the West aren't equipped for today's pace of change, in which jobs come and go and skills can quickly become redundant.

"You have to have a better education system from preschool onward," says William McDonough, vice chairman of Merrill Lynch & Co. He recognizes, however, that improved

education is a long-term remedy that won't help those feeling the pressure of rising global competition today.

"A shorter-term strategy is to have more assistance for workers who are laid off," Mr. McDonough says. "I think we need to be much more helpful as a society to people who are the victims of globalization." Such aid should be supported by the state, he adds.

Others support programs like the Scandinavian-style retraining of workers who lose their jobs. "Paradoxically, we need a bigger role of the public sector in the economy to make markets work better," says Nouriel Roubini, chairman of Roubini Global Economics, an online economic-advisory service.