

A Heavier Burden

Even as recovery spreads worldwide, workers are finding themselves working harder for less money

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Aug. 23 issue - You've heard about the jobless recovery—that strange American paradox of payroll declines in a booming economy. Now, it seems, the Yankee virus has spread to Europe, too. Continental economies are beginning to rebound, but unemployment is as high as ever; in places like Germany, the ranks of the jobless are growing, even as the government pushes reform and trade unions make unprecedented compromises to keep jobs at home. Economists are beginning to call the trend by its true name. A recent report by the European bank UBS titled "Jobless Recovery in Germany" warns: "Unemployment appears to be a feature of this recovery that will persist."

There is a growing camp of economists who believe today's brutally tough labor market is not a temporary American oddity. Falling wages, reduced benefits and rising job insecurity seem to be increasingly entrenched features of the job scene across most of Western Europe, the United States and other parts of the developed world. The number of insecure freelance positions is rising (as are working hours) while stable jobs with good benefits are being cut. Large numbers of laid-off workers aren't getting their old jobs back—they are having to look for new work, often in entirely new fields. Those who still have jobs are working longer hours with little prospect of meaningful raises.

The new labor market is shaped by growing global competition, spurred by the rise of cheap manufacturers in China, India and Eastern Europe, and the price-chopping effect of both the Internet and giant retailers led by Wal-Mart. These forces compel Western companies to exercise growing restraint on prices and labor costs. "One thing globalization clearly does is to exert a leveling effect on wages. The question is whether China and India will catch up to the West, or the West begins to fall back," Eckhard Cordes, an economist and head of Daimler's truck division, said in an interview earlier this year. Indeed, he warned, Europe had little choice but to cut wages or begin losing jobs by the thousands: "I think Germany is heading for a real crisis within the next 10 years. At least you in the United States have some job growth. In Germany, there is zero. Nothing."

The crisis may not take 10 years to unfold. New signs of the upheaval are everywhere, from talk of the end of the 35-hour work week in France, to landmark union deals throughout Europe. Over the past several weeks many big-name companies, including Siemens and DaimlerChrysler, have used the threat of relocating jobs to secure record pay and benefit cuts. Workers aren't happy, that's for sure—in Germany last week, 40,000 people took to the streets in the biggest demonstrations since the end of communism to protest reduced worker benefits and government labor reform.

But protest won't turn the tanker of the global economy. "Wage share"—the percentage of national income that gets paid out in wages—has been flat or declining across the developed world for most of the past two decades, according to the Organization for Economic Cooperation and Development. "It's incredibly widespread," says OECD economist Paul Swaim, adding that while not all the reasons are clear, global competition is clearly playing a big role. "Globalization is making everyone insecure," says Swaim. "The negotiating climate for labor is simply not as good as it has been in the past."

The mood in labor markets has shifted dramatically from just four years ago. In the United States, books like "Free Agent Nation" celebrated the prospect that we would all be freelancers one day, constantly hopping from one cool job to a higher-paying one, with no ceiling in sight. The Organization Man was dead. We free agents needed big corporations less than they needed us. But that was 2000, the dizzy end of the Internet boom. Now the zeitgeist has shifted 180 degrees, and freelance is no longer a synonym for freedom. All it evokes is job insecurity and zero benefits.

Like it or not, that's the kind of job openings that are out there. In the U.S. recession that ended in June 2001, half the job cuts were "structural," meaning permanently eliminated, compared to an average of 25 percent in previous recessions, according to the U.S. Federal Reserve. In other words, laid-off workers are much less likely to be rehired by their old companies and have to find new jobs or turn to self-employment. Data from the U.S. Bureau of Labor Statistics show that more than half of the jobs created since the end of the recession are part time, that tenured workers are still losing their jobs at record rates and those that find new ones are taking 57 percent pay cuts on average.

The situation is less extreme in other developed nations, in part because signs of recovery have appeared outside the United States only recently. Still, the symptoms are there. In Japan, monthly incomes fell .07 percent in June, despite gathering signs of recovery. Layoffs are now socially acceptable in the corporate world, and last year there were a record number of suicides attributed to economic causes such as job loss and heavy debt.

The same holds in Europe. "For the last few years, there's been a move toward less pay, harder work and fewer benefits," says Ray Attrill, head of research at 4Cast, a consulting firm in London. Studies show increasing job stress. Governments are cracking down on excess sick days taken by overworked employees. In Spain, where one third of all jobs are now temp positions, a new socialist government is responding to growing public dissatisfaction by announcing plans to roll back labor-market reforms.

Of course, the idea of labor reform was to keep pace with the United States, where CEOs are still tightening the reins on labor. In the first 32 months of a typical U.S. recovery, wages rose 10 percent; this time, wages have risen just 2 percent. That's \$323 billion in personal income that's gone missing, despite blandishments from Alan Greenspan that corporate profits are high enough to support higher wages, too. The savings of big nonfinancial firms have doubled since 1999, now exceeding half a trillion dollars.

None of that money is going to pad the payroll. The past three years have seen the greatest sustained job loss in the United States since the Great Depression. Or so

many say. Those numbers are being hotly debated in the U.S. presidential campaign. Democrats point to the government payroll survey, which tracks big companies and shows startlingly anemic job creation in the Bush years, including a meager 32,000 jobs created in July. Republicans prefer the household survey, which includes the self-employed, and shows relatively strong gains under Bush. Taken together, however, both surveys support the picture of a Darwinian job market in which a comfy corporate post is increasingly hard to find.

The United States is likely a harbinger of what's to come in Europe, as it widens its own continental market. Already, tens of thousands of big-company manufacturing jobs have migrated to the 10 new member states since they joined the European Union in May. Now, small- and medium-size businesses are also expected to take advantage of cheaper labor in countries like Estonia. "Even if the actual number of job losses aren't high, just the idea that management could move jobs anywhere, at any time, will have an effect on the Western European work force," says Citigroup European equity economist Richard Reid.

The same basic concerns haunt employers on both sides of the Atlantic. Faced with relentless price pressure from all sides, chief executives can't look at labor costs the same way, says A. D. (Pete) Correll, the CEO of the timber and paper products manufacturer Georgia Pacific. His main customer is Wal-Mart, and he counts Wal-Mart CEO Lee Scott as a friend, but says, "If I call Lee and say, 'Lee, I've got to raise prices,' he says, 'You raise prices, and I'm taking my business elsewhere.'" In that environment, says Correll, the "implicit social contract" between workers and bosses is changing irrevocably.

Experts say the global labor market has not changed this dramatically since the height of the Industrial Revolution. During the 19th century many of the same factors, including technological change, improved communications and transport and falling prices, threw millions out of jobs. Then as now, there were nationalistic outcries about the loss of "quality" jobs. Princeton economics historian Harold James says British author E. E. Williams wrote the classic of the genre, "Made in Germany," which began with a rant against his German-made pencil. By the 1920s, restrictions on immigration and trade were making the world poorer and less safe. It took two world wars to bring the global economy back to where it started. And now, some economists fear, the new competitive threats are inspiring another protectionist backlash.

What's crucially new this time around is what's being globalized—that is, the service sector, which accounts for the bulk of employment in the developed world. The fact that seemingly any job can be exported abroad is creating an unprecedented level of anxiety across all social classes. Though the number of Western jobs "outsourced" to India is far too small to explain the jobless recovery, the trend is only in its infancy. The number of Indian professionals in the IT sector is expected to triple to more than 2 million over the next five years, and Morgan Stanley's Mumbai research center predicts that multinationals will match new jobs in Indian subsidiaries with head-count reductions elsewhere. General Electric's "70-70-70" plan signals the possible extent of these shifts: It plans to outsource 70 percent of its head count, push 70 percent of that outsourcing offshore and locate 70 percent of its workers in India.

Proponents of globalization tell us not to worry. Developed economies will eventually create new and better jobs, leaving less desirable ones behind. True, the majority of

the jobs lost so far in the West have been lower-skilled manufacturing positions, but it's unclear what comes next. And even if the exporting of jobs turns out to be an inconsequential fad, the jobs left in the West are still likely to pay lower salaries with fewer benefits, when they can be found. The forces of global competition led by the rise of China and the Internet are not going away. "This is the first time in a business cycle that these forces have come together in such a powerful way," says Morgan Stanley economist Stephen Roach. "They are acting as a structural depressant on traditional sources of job creation in high-wage developed countries." In Europe, economists say the Continent may be entering a period of increased merger-and-acquisitions activity, in which big companies will be cutting rather than adding jobs.

Meanwhile the knowledge economies of the major emerging-market nations continue to grow rapidly. Salaries in Shanghai are growing as fast as 15 percent annually; for IT workers in Bangalore by 8 percent annually. Most economists believe that at some point in the next 20 to 50 years, India and China will reach wage parity with Germany and the rest of the developed world. How far the West falls to meet them may well depend on whether it can fight back the protective tendencies of the past, and find new ways to justify its place in the global economy.

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