



Inequality and Threat Effects

Most of the economic literature on the impact of globalization on inequality tries to explain increased inequality *among* groups of workers such as “skilled” versus “unskilled,” meaning jobs where workers need more formal training (such as a computer programmer) versus those where workers need less training (such as sewing garments). These analyses rely on the impact of international trade in goods and services on this intra-worker inequality to measure the impact of globalization.

Two groups of economists have developed this research. The first group, labor economists, attempt to measure the impact of trade by looking at the size or quantity of trade flows, where it is hypothesized that import competition from lower-wage economies in industries that primarily employ unskilled workers draws down wages for unskilled workers in high-wage economies. The second group, trade economists, emphasize the impact of price changes in traded goods on income distribution, where falling prices due to competition from lower wage economies can put a damper on the wages of unskilled workers. A “consensus” of sorts has emerged among mainstream economists concerning these issues: In the case of the U.S. and Europe, the consensus goes, trade can explain at most about 10-

20% of the increase in inequality between college educated and non-college educated workers. According to this assessment, the trade quantities and price changes induced by international trade are simply too small to explain of the wage gap.

But this focus on the connection between globalization and inequality is too narrow and therefore potentially misleading. In particular, by focusing almost exclusively on trade, mainstream economics has virtually ignored a crucial aspect of globalization – capital flows (the flow of investment around the world); and by focusing on wage inequality among different types of workers, it has mostly ignored the increasing inequality between workers and capitalists.

The idea of threat effects is that focusing on capital mobility and the distribution of income between labor and capital may help to bridge the gap between the widely-held perception that globalization is having a big impact on the distribution of income, wealth and power, on the one hand, and the results delivered by economics research, on the other.

Another way to put this is that the mere *threat* of moving a factory to a different location may have a significant impact on wages or the power of such institutions such as trade unions, even in the absence



of any movement by companies. These threats may magnify the impact of trade and investment flows on inequality and government behavior in the sense that the impact of openness may be larger than can be attributed to the flows of goods, services or capital themselves.

So the effect of globalization may have been to enhance the power of capital vis-à-vis workers, and standard economic research has been unable to pick up these effects because capital need not actually move to enjoy the benefits of the enhanced bargaining power that globalization has afforded them.

A notable exception to this lack of research is the work of Kate Bronfenbrenner. By tracking the relationship between unionization drives, plant closing threats and actual plant closings, Bronfenbrenner has established that threats to move are a significant part of employer strategies to fight union drives in the United States.



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