

Press Points for Chapter 5: *The Globalization of Labor*

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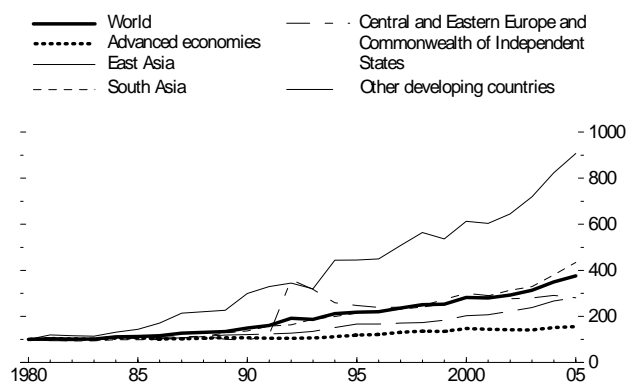
Key Points

- **The effective global labor force has risen fourfold over the past two decades, reflecting population growth and the increasing integration of China, India, and the former Eastern bloc into the global trading system.**
- **This ongoing globalization of labor has contributed to rising labor compensation in advanced and emerging market countries, at the same time that it has reduced the labor share of income in advanced countries. Rapid technological change, however, has had a bigger impact on labor shares.**
- **While globalization is an important force sustaining global growth, greater attention should be paid to addressing distributional consequences, including through policies that improve the functioning of labor markets, strengthen access to education and training, and ensure adequate social safety nets that cushion, but do not obstruct, the process of change.**

Over the last two decades, labor has become increasingly globalized. Estimates presented in Chapter 5 suggest that the integration of China, India, and the former Eastern bloc into the world economy, together with population growth, have led to a fourfold increase in the effective global labor force since 1980 (first figure). It could more than double again by 2050.

This growing pool of labor is being accessed by advanced countries through imports of final goods, offshoring of the production of intermediates, and immigration. While offshoring—which refers to the outsourcing of intermediate production to affiliates or independent companies in locations outside the country—has received considerable attention in recent years, it is still small in relation to the overall economy. For example, only about 5 percent of total production inputs in advanced countries are obtained offshore. Migration is also small relative to trade in most countries, the United States being a major exception.

Export-Weighted Labor Force by Region
(Index, 1980 = 100)



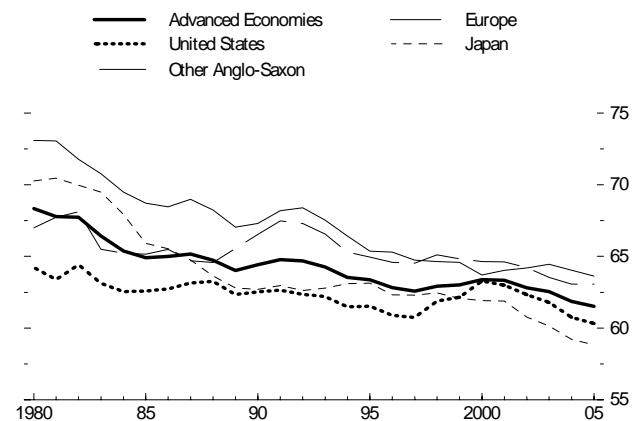
The integration of workers from emerging market and developing countries into the global labor force has produced important benefits for advanced economies. Export opportunities have expanded considerably, while productivity and output have benefited from lower input costs and improved production efficiencies. The end result is that labor compensation has risen. Calculations presented in the Chapter suggest that the decline in traded goods prices over the past 25 years has generated a 6 percent increase in both output and real labor compensation on average in the advanced economies. And in emerging market economies, manufacturing wages have been rising rapidly in recent years.

Despite these benefits, the globalization of labor has negatively affected the share of income accruing to labor (the labor share). The labor share in advanced countries has declined by about

7 percentage points, on average, since the early 1980s (second figure), with the drop being largest in European countries and in unskilled sectors of the economy. Labor globalization, however, is only one of several factors that has affected the labor share. Rapid technological change has had a bigger impact, particularly on unskilled

sectors. Countries that have enacted reforms to lower the cost of labor to business and improve labor market flexibility have generally experienced a smaller decline in labor share.

Income Share of Labor by Group of Countries
(Percent of GDP)



Looking ahead, it is important to maximize the benefits from labor globalization and technological advancements, while working to address the distributional impact of these ongoing changes. To this end, policies should aim to:

- **Improve the functioning of labor markets.** Policies that reduce labor costs and increase the ease with which workers move from declining to expanding areas of the economy would help the adjustment. In some countries, making health care less dependent on continued employment and increasing the portability of pension benefits would also contribute.
- **Increase access to education and training.** Workers in skilled sectors have been better able to adapt to changing conditions caused by the ICT revolution than workers in unskilled sectors. Improved education and training will help workers compete with the growing pool of skilled workers in emerging market countries, especially in Asia.
- **Ensure adequate safety nets during the adjustment period.** Adequate income support should be available to cushion, but not obstruct, the process of change.