

ORLANDO GOMES WHEN LEISURE BECOMES EXCESSIVE: A BIFURCATION RESULT IN ENDOGENOUS GROWTH THEORY

ANTÓNIO CALEIRO CONFIDENCE AND UNEMPLOYMENT IN THE EUROPEAN UNION: A LESSON FROM THE 2004 ENLARGEMENT

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EDWARD GRESSER HEALTHY STATE, WORRIED WORKERS: NORTH CAROLINA IN THE WORLD ECONOMY



Healthy State, Worried Workers: North Carolina in the World Economy*

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Introduction: Americans Debate the Global Economy

I should begin by noting that we often raise “globalization” as a fundamentally new phenomenon: a matter of the early 21st century and perhaps the 1990s, the rise of China, global supply chains, the intrusions and opportunities of the World Wide Web and so on. In some ways this is true – above all when we think about the effects of new media and methods of telecommunications. But in some ways it is not. The questions about how the United States as a wealthy country might cope with competition from rapidly developing poorer nations, and about how workers and communities manage change, are as old as the United States, and so are the emotions that these questions arouse.

The United States is now 231 years old as an independent country. The colonial experience extends this to 400 years precisely, dating to the foundation of the Jamestown settlement in Virginia in the spring of 1607. This earliest English colony in America (incidentally, not far from Kannapolis, North Carolina) is an old global-economy story: the colony succeeded after a difficult launch by capitalizing on England’s new-found love for tobacco. Americans have debated global-economy issues ever since.

In 1792 Thomas Jefferson was complaining (among much else) about the ban imposed by Spain and Portugal on direct trade between the US and the Latin American empires¹. A year earlier, his colleague and ideological rival Alexander Hamilton wrote the first U.S. government publication on trade, known as the *Report on Manufacture*.

This latter document, despite its age, is strikingly relevant to the questions facing American manufacturing – especially light-industry businesses like textile mills – in the global economy of today. The *Report* is an argument for a government-led effort to develop a manufacturing industry. Whatever the merits of this idea, Hamilton’s point of departure – a rebuttal of claims that high American wages made factories unviable against competition from lower-wage countries, which at the time meant Britain and France – remains relevant today.

Conceding that “in the article of wages the comparison certainly turns against the United States”, and that the high pay – the “dearness”—of American workers is a disadvantage, Hamilton insists that it is not an *impossible* disadvantage. Newly invented technologies and production techniques, he says, can reduce production costs overall, allowing Americans to substitute machines for human labor:

“Let it be supposed that the difference of price in two countries of manual labor requisite to the fabrication of a given article is as ten, and that some mechanic power is introduced into both countries which, performing half the necessary labor, leaves only half to be done by hand, it is evident that the difference in cost of the fabrication of the article in question in the two countries, as far as it is connected with the price of labor, will be reduced from ten to five in consequence of the introduction of that power²”.

* This paper was presented at the FEUC Conference Series *Ciclo Integrado de Cinema, Debates e Colóquios*, November 5, 2007.

1 Jefferson, Report on <http://www.yale.edu/lawweb/avalon/jeffrep2.htm>

2 Alexander Hamilton, *Report on the Subject of Manufactures*, reprinted in F.W. Taussig, *State Papers and Speeches on the Tariff*, Harvard University, 1892; reprinted by August Kelley, 1972, pg. 35. Italics in the original.



In effect, Hamilton believes America can succeed as a manufacturer, despite its high wages, by producing goods with fewer workers than its rivals. In this thesis we see, 206 years later, America's recent global-economy experience in manufacturing industry. We are making more, but using constantly fewer people to do it. In general, therefore, fears of a broad deindustrialization are mistaken. And when we do find ourselves fundamentally unable to compete in particular industries – even those very important to particular regions – it seems that new inventions and industries emerge, sometimes with support from government, sometimes not, to replace the old.

But change comes with a high human cost – in direct dislocation and job losses, in high levels of anxiety for people whose jobs are less secure, and especially in the very high financial price American workers and their families can pay for job loss. American government support and adjustment policies, in particular the Trade Adjustment Assistance program developed in the 1960s by John F. Kennedy, ease these costs only to a small and incomplete extent.

North Carolina's experience dramatizes the dilemma with special force. The state relies more heavily on factories for employment than does the United States as a whole. And the emblematic manufacturing industries of North Carolina's 20th century – textile mills, garment factories, furniture factories – are precisely those facing the most powerful challenges from developing Asia. Its efforts to redesign itself and move into new areas has been remarkably successful; the efforts of the state and national governments to help individuals, however, have been less so. The experience may be most powerfully dramatized by the recent experience of the Cannon Mills workers portrayed in the film and the Kannapolis community.

I. North Carolina and its Industrialization

First, a few introductory remarks for those not intimately familiar with our politics and geography.

North Carolina is a state on the Atlantic seaboard of the United States. Originally settled as a British colony in 1655 – it is named for then-King Charles II of England – it was one of the original 13 colonies that joined to form the United States in 1776. To the north it borders on Virginia, to the west Tennessee, to the south, its sibling South Carolina. The state's nine million people spread across 139,000 square kilometers of land, making it geographically a bit larger, and demographically slightly smaller, than Portugal.

As of 2006, the state's economy is valued at \$374 billion. The low value of the dollar these days means the figure is about 50% larger than the Portuguese economy, roughly equal to Poland, and slightly behind Belgium. The total includes \$74 billion in manufacturing output, or roughly 19% of the economy. For the US as a whole, the manufacturing figures are \$1.6 trillion and 12.9% of GDP. North Carolina also counts \$4 billion in agricultural production, a \$40 billion professional and technical field, centered on an area known as the Research Triangle around the universities at Raleigh and Durham (roughly 160 kilometers from Kannapolis) and a \$17 billion information industry. This audience will be aware that North Carolina is a film center, apparently ranking third in the United States behind only California and New York.

Just as manufacturing is a larger share of North Carolina's economy than that of the US as a whole, factories employ a larger share of North Carolina's workers. The state has about 550,000 factory workers, accounting for 16% of the state's 4.1 million workforce. By comparison, the US as a whole has 14 million manufacturing workers, or about 11% of the nation's 138 million workers. North Carolina's light industry are especially heavy employers – the states's textile mills, for example, employ a sixth of America's textile workers.

This reliance on manufacturing is not an eternal phenomenon. Like the South generally, North Carolina was slower to industrialize than the northern and western United States. In its early history, the state relied on foreign markets for its agricultural products, in particular tobacco. Its industrialization dates to the early 20th century, when the textile industries born in New England and New York began migrating toward lower-cost parts of the United States. Pietra Rivoli, an economics professor and student of the textile industry at Georgetown University, explains:



“The floods of cheap cotton clothing that flow today from China to the United States are almost a symmetric reversal of the trade flows of a century ago. The cotton mills were the first factories in the American South, and the ‘mill villages’ that soon turned into towns diversified the Southern economy away from agriculture and spurred the development of ancillary industry. Before long, the South had developed a capability in finer goods as well and had wrested the higher end of the domestic market from New England. For the 50 years ending in 1930, the New England mills gradually shuttered and reappeared in the South. By the mid-1930s, 75 percent of the yarn spindles in America were in the South³”.

As investment flowed out of New England and into the South, textiles and clothes became very important employers for many rural and semi-rural workers. The Kannapolis mill complex – known first as Cannon Mills, then as Fieldcrest-Cannon, finally as Pillowtex – was the largest single example of this flow of industry from north to south. Its history dates back precisely a century, to James Cannon’s launch of the first Kannapolis mills in 1907. Until its closure in 2003, it was North Carolina’s largest factory employer.

The North Carolina textile industry was born, as it happens, in an era of intense debate over trade. Before the First World War and the Depression, despite high American tariffs, the world’s industries were almost as “globalized” as they are today, based on the ratio of trade to estimates of world GDP. One sees this in the ‘illustrious Ramires’, hero of Eça de Queiroz penultimate novel, with his plantation in Mozambique, his South American mahogany cabinet, Chinese lacquered clock, and porcelain dinner services imported from India and Japan. Americans accordingly carried on an intense and often emotional debate on trade, with Northeastern and Midwestern Republicans – reliant on manufacturing lobbies for organizational and financial support – favoring high tariffs while southern Democrats close to agricultural-export interests favored low tariffs. Ida Tarbell’s contemporary book *The Tariff in Our Times* spends a chapter describing the textile trade policies of the time, quoting Senator Aldrich of Maine (in a tariff debate of 1908) to the effect that criticism of tariffs on cotton and wool textiles, then in a range between 18 and 40 percent, was “an attack upon the very citadel of protection and the lines of defence for American industries and American labor⁴”.

Between the Civil War and the 1930s, Aldrich and the Republicans won most of these arguments. In the first half of the 20th century, therefore, the southern textile industry was born into a relatively sheltered world, through high tariffs as well as the high sea transport costs for bulky goods like textiles, and the relatively undeveloped state of America’s immediate neighbors.

Whether these conditions had a major effect on the flows of industry and investment is hard to say. But it is certain that for the past nine decades the Kannapolis mill was the center of industrial life for the town, with a population of 30,000, and also for the Cabarrus County region, whose population is 131,000.

Known first as Cannon Mills for its founding family, then as Fieldcrest-Cannon after a change of ownership in 1982, and finally as Pillowtex after a buyout in 1997, by 2002 the plant employed 4,650 people. During the 1990s, it was the largest textile mill in a complex of over 2,200 North Carolina textile, clothing and household textile product factories. Together they employed 286,000 people, or about one in nine of the state’s 2.6 million private-sector workers⁵.

II. Globalization and its Causes

The era of the southern textile industry’s foundation was, it seems in rosy hindsight, one of idyllic self-reliance. But here hindsight is an untrustworthy guide. Isolation was never complete, and never nearly complete; and by the 1930s it was breaking down.

3 Rivoli, Pietra, *Travels of a T-shirt in the Global Economy*, Wiley & Sons, NY, 2004.

4 Tarbell, Ida, *The Tariff In Our Times*, MacMillan, NY, 1915.

5 http://www.soc.duke.edu/NC_GlobalEconomy/textiles/overview.php



The U.S. government abandoned its high-tariff policy in 1934, after the first presidential election of Franklin Roosevelt. Roosevelt launched the modern American effort to negotiate lower trade barriers, in the belief that the tariff retaliations of the early 1930s had deepened the Depression and made it harder to escape. After the Second World War, his innovation became a multilateral effort, known as the GATT and now as the WTO. Most of the world's major governments have viewed liberalization as a way to promote growth and strengthen political stability; and as time passes their policy efforts have been joined by powerful new technological forces. If it is possible to summarize decades of complex political, policy and technical changes, trade policy has been one of four factors creating the modern 'globalized' world:

- *Trade negotiations*: Barriers to trade are much lower. Twelve multilateral trade agreements since the Second World War have reduced tariffs – on average – by about 90% among rich countries, and a lesser figure in developing regions. They have also eliminated some less-known sorts of trade barriers such as import licensing, quotas and voluntary restraint agreements, and also reached agreements on topics such as technical standards to make trade easier and cheaper.
- *End of the Cold War*: More countries are participating in trade. Experiments with closed economies ended in Latin America and much of developing Asia during the 1980s; China, Vietnam, Russia and other Cold War rivals reintegrated themselves into world trade and investment between the 1980s and 1990s. Altogether, the WTO system has grown from 23 countries to 151.
- *Logistical advances*: Trade is cheaper faster than at any time in the past. The largest factor here was the adoption of container shipping in the 1970s and 1980s has radically cut the time and cost of transporting goods. This process is continuing and perhaps even accelerating as container ships grow larger, and air cargo evolves into a way of supplying factories with just-in-time inputs from computer chips, to bolts of specialized fabric and chemical dyes.
- *Internet and Global Telecommunications Network*: Communications are cheaper and better. Most recently the global telecom network and Internet have created a worldwide venue for media, financial services, back-office work such as bookkeeping and customer service, and so on.

Thus the U.S. economy has become 'globalized.' At the time of Cannon Mills' foundation, merchandise imports measured about 5% of US GDP. In 1950, around the historic low point – i.e., before Depression-era trade barriers had come down, before European and Japanese recovery, and after the exit of China from the world economy - the figure was 3% of GDP. The imports were most often natural resource products or agricultural goods not grown in the United States: coffee, tropical fruits, metal ores, wool, wood and so on. Two generations later, our import-to-GDP ratio is about 17% – the highest levels at least since Hamilton's era, and perhaps the highest ever.

Consequences, Good and ill

None of these processes are complete. Trade agreements, for example, have abolished tariffs and other import barriers for many industries – semiconductors, toys, furniture, computers, coffee and others. But they have touched some other industries, among them the textile industry, only lightly.

Aided by three generations of trade-sensitive Carolina Senators and Representatives, textile and clothing factories won exemptions from most of the tariff cuts made between the 1950s and 1990s. The products made in the Cannon Mills, for example, still carry tariffs seven to fifteen times the average rates: 9.1% for terry-cloth towels, 11.9% and 20.9% for cotton bedsheets and pillowcases, and so forth. These are slightly below the rates of Aldrich's era but not drastically different, and far above the rates typical today for most other manufactured products, when the average US tariff is about 1.4%. American clothing tariffs are even higher, rising to 19% for T-shirts and 32% for acrylic or polyester sweaters.



One can read the experience of the Carolina textile industries, therefore, as a story of intense recent competition as globalization accelerates. Or, with equal validity, one can read it as the story of an experiment in preserving the high tariffs of the early 20th century in the world of the late 20th and early 21st.

Either way, the structural and policy factors promoting globalization have had powerful effects. For the American managing a family budget, many changes are for the better. Our Bureau of Labor Statistics' Consumer Expenditure Survey shows that in 1950 Americans spent 40 cents on each dollar of earnings on food and clothes. By 1973 this dropped to 27 cents per dollar, and in 2005 it was 13 cents on the dollar. Thus, on average, America's modern families are far more affluent than those of a generation or two ago, after shifting a seventh of their income from the necessities of life into education, entertainment, household amenities, personal computers, and so on.

But Americans are also workers. Many are factory workers; and as we have seen, North Carolina's factory workers were concentrated heavily in lower-skilled light manufacturing. Here the effects have been very challenging. Tariffs or not, Dr. Rivoli observes, garment-industry work has flowed out of the American south to poorer countries, just as it once flowed from New England to North Carolina. Textile businesses, especially in the clothing sector, began moving out of the wealthy world into Asia during the 1950s and 1960s; the flow accelerated during the 1970s and 1980s, and continues to this day.

Many identify these trends as part of a general decline of manufacturing in the United States. This is mistaken. Factory industry remains a very large part of American economic life, though it is now a smaller employer and more concentrated in capital-intensive, high-tech fields. Some national statistics illustrate the trends:

- *Production*: American factory output – measured as a share of the US economy, or as a share of world manufacturing – has changed relatively little. America's share of world manufacturing output has remained fairly steady over the past three decades, at about 20% of world output. Within the US economy, the same is true; in real dollars, manufacturing has a 13.6% share of GDP, roughly the same as the 13.3% figure the Bureau of Economic Analysis records for 1987. But the type of goods made in the United States have changed significantly. Textiles and clothes accounted for about six percent of American output in 1987; now they are two percent, with capital – and technology-intensive products like IT goods and medical equipment taking their place.
- *Job availability*: Faithfully reflecting Hamilton's ideas on competition with lower-wage countries, factory managers have replaced workers with machines. American factory employment peaked at 35% percent of the workforce in the 1950s, and in total terms at 19.6 million in 1979. Now the figures are about 11% of the workforce and 14 million workers. For the textile and clothing industry the drop has been much faster – from 2.4 million in the early 1970s, to about 500,000 today. And in this decade, the exodus from factory work has been remarkably fast.

In January of 2001, American factories employed 17.3 million people. By December of 2003, after a recession, the figure had fallen to 14.2 million workers. In effect, three million people left factory jobs and moved ... somewhere else. Since then, with the economic recovery, job loss has slowed but not stopped. Despite a strong recovery in dollar terms, factories continue to shed about 90,000 jobs a year; and even in their shrunken state, the textile and clothing businesses account for five thousand of these monthly job losses.

- *Pay*: Factory work also now pays less relative to other businesses than it did in the past. In 1987 the typical manufacturing worker earned about 7% more per hour than the typical worker overall. Now the manufacturing worker makes about 1% less per hour. This is all the more striking when one considers that manufacturing is shifting from lower-skilled light-industry toward fields like information technology, medical equipment and other very sophisticated goods.



Globalization, then, has not meant a broad “deindustrialization” of the United States. Nor does falling factory employment meant an increase in unemployment. Our job creation rates have varied, from the weak labor markets of this decade through the strong job growth of the 1990s. But we now have 116 million private-sector workers and 138 million total workers, where in the 1970s we had about 70 million in the private sector and 85 million overall. Unemployment rates are about equal to those of the 1950s, varying between 4 percent and 5 percent since 1992, and much lower than they were in the less ‘globalized’ 1970s and 1980s, when unemployment was regularly between six and seven percent, and occasionally rose to ten percent.

That said, the decline of American manufacturing employment – even if factories remain successful – has narrowed a once-broad avenue that earlier generations of less-educated Americans took to claim a middle-class way of life. And for those individuals among the 8,000 or so who leave factories each month, the personal toll can be high. America lacks a government guarantee of health care and relies in part on private firms for pensions; so workers who lose their jobs routinely lose health insurance. Thus job losses come with massive financial risk, which in turn deters many unskilled workers from seeking training and community-college degrees which could help them develop new skills. Pensions are vulnerable as well. Even affluence can increase risks, since we have few social-insurance policies to help families cover college tuition and home mortgage expenses during periods between jobs.

And American leaving factory work are often especially vulnerable. The highest rate of manufacturing job loss, and presumably of trade-related job loss, has been in light manufacturing industries such as textiles, shoes, toys and furniture. Here we find workers who are often older than the average, have fewer years in school, and are more likely to live in rural or semi-rural areas where communities are small and can depend very heavily on one or two large businesses. In North Carolina, for example, factories employ 19 percent of workers in rural areas and only 12 percent in cities. For obvious reasons these people have more trouble recovering from job loss than others. And this brings us back to North Carolina and the Cannon Mills.

III. Plant Closure and its Aftermath

The Pillowtex company went bankrupt in 2003, and shut down its operations nationwide. The company’s fate seems from a distance avoidable and not wholly a matter of trade competition, as the debt it had taken during the purchase of the mills from Cannon-Fieldcrest seems to have left it uncompetitive. On the other hand, it was simply the largest in a very broad wave of retreat for the industry. The lobbying group National Council of Textile Organizations, an association of textile and related industries, claims that 341 textile and clothing factories have closed in the United States since the year 2001. Of this total, 138 closures – two in every five – took place in North Carolina⁶.

These 138 closures, according to NCTO, accounted for 23,100 job losses. The Pillowtex closure accounted for 4,650 all by itself. Given the small size of the community a layoff on this scale is a quite devastating event.

What happens afterward? One can divide this question into two different parts: does the community recover? And do the individuals recover?

1. North Carolina and Kannapolis Recover

The answer to the first question is – perhaps surprisingly – positive. North Carolina is managing the transition successfully, and with considerable help from the state government the Kannapolis community seems to be doing so as well.

6 <http://www.ncto.org/>



Despite the wave of garment-factory closures, the state is putting its people to work and developing new and more sophisticated industries to replace the old. The most recent reports from the Bureau of Labor Statistics find North Carolina's unemployment rate at 5.0 percent, only slightly above the national average and below South Carolina's rate. This figure is also noticeably below the 6 to 8 percent unemployment rates typical of North Carolina in the 1970s, when textile employment peaked.

Part of the reason for this is the change in the North Carolina economy. The decline of light-industry employment, as in New England a century ago, has been offset by a rise in newer industries. The most successful example is the Research Triangle, an industrial park based on a combination of state and business support for research-based universities at Chapel Hill and Duke. The Triangle has allowed the north-central part of the state to develop a network of high-tech, medical and educational industries that support high-wage, high-skilled employment that (on the whole) has left North Carolina more affluent than it was in the past. The state's governor, Mike Easley, takes justified pride in its development:

"New names have arrived, like General Dynamics, Verizon and Dell. Longtime North Carolina companies are expanding like GE, Merck and Lowe's. And we will soon have the only statewide biomanufacturing job-training network in the world. North Carolina is now poised to become the world leader in biomanufacturing, with new jobs not just in the Triangle but throughout the entire state⁷".

This evolution is underway (though it is too early to make a long-term judgment) in Kannapolis itself. The town's unemployment rate jumped from 7.5% in May 2003 to 12.1% in August 2003, and remained around 10% for well over a year. This was nearly twice the national average. But four years later, the rate is now back down to 5.8%, and total employment is at 19,200, above the 18,700 figure for May 2003.

Over the longer term, the town is attempting to create a new long-term center and a new identity. Its plan is only in the initial stages, but so far seems very promising. Together with the state university system and one of the earlier owners of the Cannon Mills, it is building a complex known as the North Carolina Research Center – the heart of the bio-manufacturing Governor Easley cites – whose hope is to copy the Raleigh-Durham area's development of the Research Triangle in the 1980s and 1990s.

The main effort is a new research complex, known as the North Carolina Research Center, built over the old towel and bedsheet mill site. The old mill featured in the movie was blown up this spring, and the town is now installing high-powered generators, a gigantic magnetic resonance imager purchased in Germany, and other sophisticated equipment. The construction bill will be \$700 million, with \$25 million in annual operating expenses, paid for in part by the state government and in part by a former owner of the Cannon Mills who remains closely tied to the town.

Such efforts of course do not always succeed, but are not simply quixotic tilts at windmills. A parallel effort might be that of Bethlehem, Pennsylvania, once home to the gigantic Bethlehem steel mill. This mill closed in 1995, eight years before the Cannon Mills complex, and the town has bounced back remarkably. The steel mills now house a series of materials technology, chemicals and other small research and scientific firms in the old mill complex.

2. And the Workers?

What about the individual? Here we have to say that the picture seems darker, and that the policies we have created to ease transition are at best partially successful.

⁷ 2005 State of the State address, North Carolina Governor Mike Easley, at http://www.dlc.org/ndol_ci.cfm?kaid=106&subid=122&contentid=253186



The Pillowtex bankruptcy, of course, left the Kannapolis textile workers without jobs. This was only the most obvious aspect of their troubles. Their health insurance was terminated as well; the North Carolina Rural Center says that it was so sudden that it left \$5 million in unpaid claims. And the region's heavy reliance on the mill complex meant that new jobs were not readily available.

In such circumstances, American workers get relatively little help, and those affected by trade competition get more than most. John F. Kennedy's Trade Adjustment Assistance program, bolstered most recently by Senate Democrats in 2002, offers them two years of support for job training, some help in buying private health insurance – the workers received a \$7.6 million grant from the federal government for this purpose – and some stipends for job search.

State governments also have resources. Given the scale of the Pillowtex layoff, Governor Easley was able to create a special task force – combining agencies dealing with business development, education and training, health and other local areas – charged with the single task of providing the Pillowtex workers an array of services sufficiently broad to help them find work quickly when possible, train for new jobs when necessary or desired, and avoid health and financial disaster. Local community colleges designed special courses meant to create new skills, including courses in pharmacy technical work, medical coding and billing, welding technology, electrical repair and similar skilled blue-collar jobs.

Many dislocated Pillowtex workers used these services. The North Carolina Rural Center's recapitulation of the relevant statistics include:

- Unemployment benefits – often including special trade-related benefits – for 4,820 people at a cost of \$67 million;
- Continuing education for 2,230 through community colleges and 934 for high school equivalency,
- State job training for 2,010⁸.

Very recent evaluations of the success of these initiatives are not easily found. But as of 2006, they seemed mixed. By late 2005, about 2,730 Pillowtex workers – three in five of those laid off in 2003 – had found new jobs, mainly in fields outside manufacturing. Many of these, if the general pattern for people laid off from factories holds, would have had to accept salaries below their Pillowtex earnings. (The North Carolina Rural Center finds that the typical North Carolina factory worker taking a new job after a layoff has taken a 25% pay-cut, and a third of the workers earn less than half of their earlier salaries⁹). Some would not have health insurance; and the fact that 2,730 of the workers are employed implies that as many as 1,900 might not have found jobs at all.

IV. Assessment and America's Eroding Social Contract

What can we draw from this experience? One can draw in essence three conclusions.

First, the process of "globalization," with its advantages and stresses, seems very difficult to slow or to change. (In the absence, of course, of some repeat of the wars and depressions that derailed the 19th-century global economy.) The textile and garment industries have been the most 'protected' American manufacturing industry, are still hedged about by some of our highest tariffs, and also won 30 years of quota protection between 1974 and 2004. None of this made much obvious difference. As technology and logistics improved, and as Asian countries grew more competitive, the employment value of the protective tariffs quotas drained away. Pillowtex, of course, closed before the quota system was abolished.

⁸ Back on Track: 16 Practices to Help Dislocated Workers, Businesses and Communities, North Carolina Rural Center, September 2006, pp. 26-27.

⁹ http://www.ncruralcenter.org/databank/trendpage_Employment.asp.



These trends are unlikely to change, though Africa may eventually replace Asia as a labor-intensive competitor. Outside manufacturing, in the services industries where trade and new competition emerge from communications technology rather than through liberalization of trade policies, 'resistance' seems even less feasible.

Second, the United States seems able to provide employment and high living standards as the world and the American economy change. North Carolina's experience, as Governor Easley suggests, shows that it is quite possible for a state to evolve away from reliance on one set of industries and adopt a new set.

On both grounds, we should be sparing with our regrets for a vanishing past. I personally believe that the motives which led President Roosevelt to begin the trade liberalization project in the 1930s – an effort by the major economies to spark growth through exports and raise living standards by encouraging competition; a hope to reduce the chances of war and economic crisis – were valid then and remain so. Economic theory has recognized for many decades that the alternative approach – using high trade barriers to guarantee local production – does not produce higher employment and comes with a national economic cost. Practical experience, above all in the textile industry, seems to show that even quite high trade barriers are now ineffective. And to lament technological advance and logistical improvements is pointless.

But third, change and globalization come with human stresses that are sometimes very powerful. And neither American government policies nor traditional concepts of trade unionism have been able to ease them very significantly.

Over the past half-century, the United States has had a social-protection system quite different from Europe's. Businesses were the main providers of health insurance and pensions, while government stepped in principally to fill the gaps in the system with special programs (Medicaid and Medicare, along with Social Security) for the very poor and the elderly. This system worked as long as companies could afford to provide permanent employment and high benefits without incurring crippling expenses, and as long as workers expected to spend most of their careers at a single company. In such an environment, a middle-class worker could envision a relatively stable income and the ability to plan for retirement and for education expenses as children mature.

The system always had a grave weakness: in contrast to Europe, the lack of a national health insurance system meant that job loss is not only a traumatic experience in its own right, but comes with extraordinary financial risk. The anxiety this produces has been magnified in recent years by the fact that companies are pulling back from their social roles. This reflects intense competition from abroad, not only in factories but in some services industries; and a changing career pattern, in which workers now are more likely to advance in their careers by moves among companies than to expect a long career at a single firm.

Thus our social contract has become badly outdated. The Kannapolis experience, though unique in some ways, shows that individuals have very good reason for anxiety over job loss and its effects – even if states and communities are reasonably successful in managing transitions. Observers of American political debate will easily see the consequent public anxiety reflected in Republican alarm over immigration, and in the anxiety of many Democrats over trade competition.

My hope is that this will lead to a reassessment of domestic policies, to provide a new social contract capable of filling the gaps rapidly opening in the old. Taking the 2002 Trade Adjustment Assistance law as a foundation, Congress needs to compensate by guaranteeing health insurance for all workers, at minimum during periods after job loss; and adding to that a guarantee of pension portability, and some social insurance programs to support college tuition and mortgage payments.

Trade unions too may be able to think about new options. Their traditional role, negotiating with large employers on behalf of a pool of long-term employees, has evidently become less relevant than it was a few decades ago, now that workers move more frequently among companies, and

that their great unmet needs are for portable health insurance and pensions, job placement, and ways to ensure that career transitions do not threaten a family's ability to make mortgage and tuition payments. A new role in 'career protection,' in which unions would help serve as guarantors of health care and pension coverage for workers in transition, and/or offer job placement services and skill development, might be very attractive to the mobile but nervous 21st century worker. It has proven so, in fact, in the Scandinavian countries whose economies are highly open to trade, and whose unions are the healthiest in the world.

