Is Austria the winner of globalization?

How does it look like in the labor market [1]

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1. Introduction

Austria is one of the relatively most integrated Western high wage-country to the low-wage East and is often presented in the media and public discussions as a winner of globalization, and mostly Eastern Enlargement. When one looks from the perspective of the profits of the firms, increased trade surplus of Austria with Eastern Europe, and phenomenal increases in the investments of Austrian firms in the East, it almost looks like that. However the recent election results show us clearly that this fairy tale is too good to be true. The majority of the people do not see it that way. Is it just about an unjustified feeling of insecurity, may be some conservatism, or misperception? Are they not wise enough to realize all the promises of globalization and all the gains that media or Chamber of employers are talking about? Or are they simply just paranoid and somewhat xenophobic and therefore open to be cheated by populist nationalists? Or is there a material background to their discontent, which the mainstream parties rejects to admit or deliberately tries to hide? My answer to the last question is »yes« based on empirical analysis, which builds on estimations of the impact of globalization -as measured by the trade and capital flows- on the labor market outcomes, i. e. employment, wages, and the wage share in Austria.

The increase in unemployment (from 3.8% in 1989 to 5.8% as of 2006 albeit a decline again to 4.1% as of 2008) despite strong wage moderation is striking. Since the 1980s industrial employment is decreasing, and total employment is stagnant in spite of the jobs created in services. The decline in manufacturing jobs is an on-going process of structural change that started in the 1980s, but the decline did not decelerate after 1990 compared to 1980 – 1990 period, in spite of the improved trade position of Austria. The opposite trend in domestic employment compared with the increasing foreign affiliate jobs is also striking (See Figure 1). In the meantime real wages have stagnated dramatically particularly since the mid 1990s. The service wages are even slightly declining in the last five years on average. This development is in striking contrast to the strong improvement in labor productivity, which has always exceeded real wage increases since the 1980s with few exceptions. The degree of wage moderation points at significant changes in labor's bargaining power in the 1980s and then further since the second half of the 1990s. As a combination of these developments (in employment, wages, and productivity), the functional income distribution is changing at the expense of labor in the last three decades.

These developments have led to a significant erosion in the share of labor (labor compensation/gross value added in non-agricultural sector) since the late 1970s with a further acceleration since mid-1990s. Wage share declined from a level of 65.2% in 1978 to 50.9% as of 2005 (See Figure 2). Guger and Marterbauer (2004) argue that rationalization waves and the decline in industrial employment reduced the bargaining power of the workers; the increased international competitive pressures determined the conditions of wage bargaining; and the flexibilization of the labor market through outsourcing, increased temporary work contracts, new working time arrangements and part-time employment also created pressures. The deterioration accelerated in the past years in spite of the profitability gains due to enlargement (see Altzinger in this issue and Altzinger, 2006).

Figure 1: Domestic and Foreign Affiliate Employment, Industy

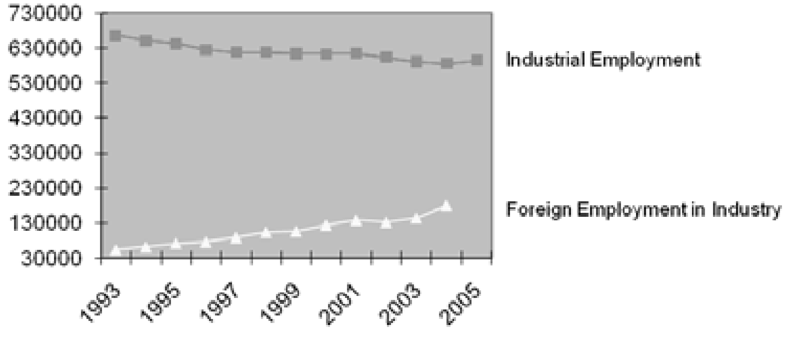
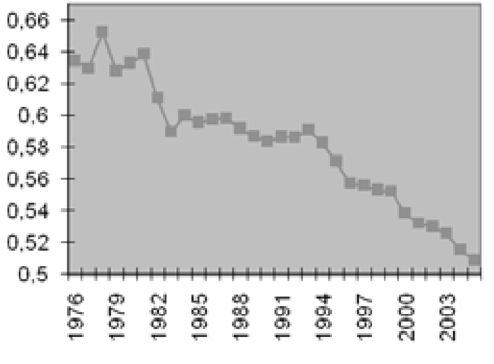


Figure 2: Wage share (%, Total economy)



So a fair question to ask is »did globalization or in particular offshoring or FDI to the CEECs by Austrian firms destroy jobs in Austria and lead to negative pressures on wages and the labor share?« The stylized facts of the labor market developments in Austria and elsewhere seem to provide some supportive evidence to these fears. The decline in labor share is not specific to Austria. Challenged by the popular discontent expressed in Eurobarometer opinion polls (2005), which shows that more people have a negative than a positive view of globalization and »relocation of jobs to countries where wages are lower« is the most frequently cited consequence of globalization, OECD (2007) as well as IMF (2007) now admit that there has been a downward trend in the wage share, which has coincided with rapid growth in trade and FDI. But both reports try to downplay the effect of globalization and emphasize technological change as well as labor market policies as the favorite scape goats of all times. They do not bother to discuss that it is quite hard to disintegrate the technology shocks from trade induced technological change. The IMF report also makes an effort to underscore the importance of globalization by focusing on the finding indicating a much larger negative effect of immigration than the other components of globalization, namely trade and offshoring. But indeed according to the results in the same report, which pass by without discussion, this is not true for all countries: in the small European countries the contribution of immigration is smaller than the effect of offshoring, and the effects of offshoring and trade in general are much larger than large countries. Also in small European countries the effect of globalization in total is as large as the effect of technology. Another interesting result ignored by the authors of the same study is that skilled labor share[3] decline much more due to globalization and in particular offshoring, and the technological change effect is less, and in contrast for the unskilled labor the effect of globalization is much smaller than the effect of technological change.

In the rest of this paper, Section 2 summarizes the estimation results about the effects of FDI and trade on employment, wages, and the wage share. Section 3 concludes and discusses the policy implications.

2. Estimation results

We estimate the effects on employment and wages, and then combining the effects on both wages and employment we calculate the cumulative effects on functional income distribution, i. e. wage share.[4] The econometrical estimations are made for a panel of sectors in the industry and services for the period of 1990–2005. In order to account for different impacts on skilled vs. less skilled labor, separate estimations are made for low vs. high skilled sector groups and for white-collar vs. blue-collar workers. Regarding the trade effects we use exports and imports of the sector. We differentiate imports from developed countries (high wage countries), the CEECs and South Eastern Europe (the East from now on), and the rest of the world (primarily other low wage countries) as well as intermediate goods (offshoring) vs. final goods imports. The effects of outward FDI on the labor market outcomes in Austria is measured by the effects of employment in the foreign affiliates of Austria (weighted by the share of the Austrian firm) in each sector disaggregated as affiliates in developed countries and the East. In both wage and employment estimations, we control for technological change.

2.1 FDI effects

2.1.1 FDI effects on employment

Table 1a shows the economic significance of the effects, thus the cumulative effect of each explanatory variable on employment in industry and total economy calculated as the estimated coefficients multiplied by the actual change in the explanatory variable. A memo item in the last line reports the actual change in employment.

Table 1: Cumulative % change effects (1996 – 2005)

a. Employment: Cumulative % change during 1996-2005 due to:		
	Industry	**Total economy**
Real wage	0,00	0,00
Real value added	18,90	11,59
Non-ICT Capital	0,69	0,00
ICT Capital	-20,97	0,00
Foreign affliate employment-developed countries	0,00	0,00
Foreign affliate employment-east	-6,96	-5,97
Foreign employment total cumulative %change effect	-6,96	-5,97
Memo item: Actual cumulative % change in employment	-4,89	7,32
b. Wage: Cumulative % change during 1996-2005 due to:		
	Industry	**Total economy**
Employment	3,35	-3,31
Non-ICT Capital	0,93	0,00
ICT Capital	0,00	0,00
Foreign affliate employment-developed countries	-7,23	0,00
Foreign affliate employment-east	-17,93	0,00
Foreign employment total cumulative %change effect	-25,17	0,00
Memo item: Actual cumulative % change in wages	12,86	3,91
c. Wage share: Cumulative %-point change during 1996-2005 due to:		
	Industry	**Total economy**
Non-ICT Capital t-1	0,75	0,00
ICT Capital t	-4,32	0,00
Foreign affliate employment-developed countries	-4,74	0,00
Foreign affliate employment-east	-13,18	-1,82
Foreign employment total cumulative %change effect	-17,92	-1,82
Memo item: Actual cumulative %-point change in wage share	-8,24	-4,80

In both industry and the total economy outward FDI has a significant negative effect on employment. The increase in affiliate employment in the East over the period of 1995 – 2004 has resulted in a decline of 6.96% in employment in industry and 5.97% in the total economy in Austria. Thus employment would have declined 6.96% less in industry if there were no Austrian foreign investment in the East in this period. This means a loss of 43402 jobs in industry and 155488 in the total economy over 9 years during 1996 – 2005. To put it differently each job that has been created additionally over this period in the Eastern affiliates of Austria has substituted 0.53 jobs in net terms in industry, and 0.58 jobs in the total economy (as a ratio to jobs created in the Eastern affiliates in all sectors). These are the net effects showing the net of the jobs lost due to substitution and jobs created due to positive complementary effects.

At the level of the total economy, the employment of blue collar workers (ArbeiterInnen) seems to be more affected by the rise of employment in the Austrian foreign affiliates relative to the white collar workers (Angestelten). But interestingly the workers working in the higher skilled sectors (e. g. electronics) are more affected than those working in the lower skilled sectors (e. g. food).

Regarding the control variables, the growth of ICT capital (information and communication technology) has a negative effect on employment growth in industry reflecting the effects of labor saving technical change. Growth (of value added) as well as non-ICT capital has a positive effect on employment. In the total economy the effect ICT capital as well as non-ICT capital is insignificant, whereas growth remains to be significant. We have further time dummies, which capture other sources of structural change or time-specific shocks like privatization, legal changes, etc. Interestingly employment does not seem to be responsive to changes in wages.

2.1.2 FDI effects on real wages and the wage share

Table 1b shows the cumulative effects on wages. According to the estimation results, employment in the foreign affiliates in the East as well as developed countries have a significant negative effect on wages in industry, but no effect in total economy. In terms of economic significance, the increase in the affiliate employment in the East and developed countries resulted in a 17.9% and 7.2% cumulative decline in real wages in the industry during the period of 1996 – 2005 respectively. Thus altogether real wages would have increased 25.2% more in industry if there were no Austrian foreign investment in this period.

There is evidence of some positive effect of affiliate employment in the East on wages in services sectors as well as on wages in the low skilled sectors. This could be explained by a positive scope effect due to increased specialization in high skilled activities, like the headquarters services or research and development and a consequent skill upgrading in these sectors. Based on the regression results for blue and white collar workers, there is evidence of a negative wage effect only for blue collar workers.

Again the time dummies remain significant and are mostly negative, indicating the significance of institutional factors as well as possible negative threat effects of increased capital mobility on the bargaining power of workers that is not necessarily reflected in the volume of actual transactions.

Combining the employment and wage effects, we find the effects on the wage share (Table 1c). In industry FDI has resulted in a cumulative decline of 17.9%-points in the wage share during 1996 – 2005. The effects in the total economy are economically not so high.

2.2 Trade effects

2.2.1 Trade effects on employment

Table 2a shows the cumulative effects on employment in total industry and sub-pools of high vs. low skilled manufacturing sectors.

Offshoring to the East (intermediate imports) has a significant negative effect on manufacturing employment. The effect is specific to the high skilled sectors. However due to low number of cross sections the estimations for sub-sector groups must be discussed with caution. In low skilled sectors it seems like offshoring to the East is leading to positive employment effects via scope changes. Offshoring to the developed countries has a positive effect in manufacturing, and in particular high skilled sectors, but a negative effect in low skilled sectors. Final imports from the East also have a negative effect in low skilled sectors. In total manufacturing both types of imports from the rest of the world have a positive employment effect, indicating the presence of a complementary relationship.

In terms of economic significance, it is estimated that intermediate import penetration from the East has resulted in a cumulative decline of 20.7% in total manufac-

Table 2: Cumulative % change effects (1990 – 2005)

a. Employment: Cumulative % change during 1996-2005 due to:			
	Manufacturing		
	Low skilled	High skilled	Total
Real wage	0.00	0.00	0.00
Real value added	3.85	0.00	0.00
Intermediate imports from industrial countries	-5.87	15.01	8.44
Final imports from industrial countries	0.00	0.00	0.00
Intermediate imports from East	17.22	-47.55	-20.67
Final imports from East	-15.25	0.00	0.00
Intermediate imports from rest of the world	7.72	0.00	5.28
Final imports from rest of the world	0.00	0.00	5.36
Total cumulative %change effect of imports	3.82	-32.53	-1.59
Memo item: Actual cumulative % change in employment	-27.72	-6.77	-16.49
b. Wage: Cumulative % change during 1990-2005 due to:			
	Manufacturing		
	Low skilled	High skilled	Total
Employment	0.00	0.00	0.00
Real value added	3.50	0.00	9.19
Intermediate imports from industrial countries	0.00	-10.97	-7.27
Final imports from industrial countries	7.71	0.00	0.00
Intermediate imports from East	-0.70	6.22	4.07
Final imports from East	0.00	-9.10	0.00
Intermediate imports from rest of the world	-3.54	0.00	0.00
Final imports from rest of the world	8.44	1.73	2.97
Total cumulative %change effect of imports	11.92	-12.11	-0.23
Memo item: Actual cumulative % change in wages	28.75	40.16	37.97
c. Wage share: Cumulative %-point change during 1990-2005 due to:			
	Manufacturing		
	Low skilled	High skilled	Total
Intermediate imports from industrial countries	-4.04	2.77	0.80
Final imports from industrial countries	5.31	0.00	0.00
Intermediate imports from East	11.38	-28.23	-11.38
Final imports from East	-10.51	-6.22	0.00
Intermediate imports from rest of the world	2.88	0.00	3.62
Final imports from rest of the world	5.81	1.18	5.71
Total cumulative %change effect of imports	10.83	-30.50	-1.25
Memo item: Actual cumulative %-point change in wage share	-12.01	-9.93	-10.70

turing employment during 1990 – 2005. Overall summing up all the import effects we find a net effect of 1.6% decline in manufacturing employment due to total imports (11104 jobs lost). The effect is minor, nevertheless they indicate that employment would have decreased 1.6% less in manufacturing without imports.

The results for the blue and white collar workers hint at an expected finding: The cumulative effect of imports on blue collar workers' employment in manufacturing is negative and on white collar workers is positive.

Although the effect of imports are mixed, when the effect of exports are also incorporated, we find a positive total trade effect in total manufacturing, however only regarding trade with the rest of the world. The positive effects of exports and negative effects of at least some import components seem to cancel out with respect to the effect of trade with developed countries or the East.

2.2.2 Trade effects on real wages and the wage share

According to the estimation results summarized in Table 2b in total manufacturing intermediate imports from the East have a significant positive effect as opposed to the negative employment effect. This result might be indicating that offshoring to the East has resulted in substitution of domestic employment with foreign employment, but in the meantime has resulted in skill upgrading through a scope change particularly in the high skilled sectors. This result is consistent with the positive effect of offshoring to the East on white collar employment. However intermediate imports from developed countries have now a negative effect on total manufacturing wages as opposed to their positive effect on employment. This effect seems to be dominated by high skilled manufacturing sectors. It seems like in manufacturing intermediate imports from countries with similar level of development are generating more blue collar jobs than white collar jobs. Since these new blue collar jobs are lower paid jobs, the overall wage effect is negative. There is a positive effect of final imports from the rest of the world.

The total effect of imports is negligible albeit negative in total manufacturing. But the cumulative increase in offshoring to developed countries has resulted in a 7.3% decline in real wages during 1990 – 2005 in manufacturing, whereas offshoring to the East and final imports from the rest of the world has resulted in 4.1% and 3.0% increases respectively.

The results for the blue and white collar workers provide some interesting evidence about skill differentials. Intermediate imports from the East have a negative effect on blue collar workers in manufacturing, but a positive effect on white collar workers. Overall the results again hint at an expected finding: The cumulative effect of imports on blue collar workers` wages in manufacturing is negative albeit low and on white collar workers is positive.

Taking into consideration also the exports, there are positive wage effects of trade with both the East and the rest of the world in total manufacturing and total economy. In manufacturing there is also positive effect of trade with the developed countries. Regarding the cumulative effects, overall trade contributed 17.1% and 14.3% to the real wage growth in manufacturing and total economy respectively.

Finally regarding the wage share (Table 2c) offshoring to the East resulted in 11.4%-points cumulative decline in manufacturing during 1990 – 2005 and offshoring to the developed countries as well as rest of the world and final imports from the rest of the world contributed positively. The increase in import penetration overall seems to have resulted in a rather minor deterioration in the wage share of 1.3%-points in manufacturing during the last 15 years.

3. Conclusion and policy implications

The results point at the existence of negative offshoring and in particular FDI effects on both wages and employment, and thereby the wage share. The results are not limited to workers in low skilled sectors. Particularly workers in high skilled sectors experience negative effects. But it is mostly the blue collar workers who are negatively affected, and not so much the white collar workers. Moreover the aggregate effects of both imports and FDI are negative. Even after we take into consideration the positive export effects, it is unlikely that exports offset negative import and FDI effects. It is fair to say that there are winners and losers, and the latter are not negligible. This is indeed not a very surprising finding even according to mainstream international trade theories (and their extensions to FDI) let alone the political economy approach, which emphasize the asymmetry in the fall-back options of labor and capital in the age of globalization. Nevertheless in Austria the tendency is to emphasize only the positive complementarity effects of foreign trade and FDI, and downplay (or ignore) the possible negative substitution effects; therefore the results presented here are perceived to be controversial.

It could be said that these results are nevertheless reflecting a relatively short period of 10 – 15 years, and thus only incorporating the substitution effects, and the stages where scope and scale effects are expected has not arrived yet. However this may also be an excuse to postpone sharing the increased prospects for growth with labor. Moreover labor market outcomes have persistence. Negative employment effects generate long term unemployment problems as well as a secular decline in labor's bargaining power. So it would be too optimistic for labor to hope for a time when the gains would eventually be shared more equally.

Furthermore the aggregate effects do matter and are negative albeit the presence of winners and losers, as opposed to what is often argued in the policy conclusions of the international organizations. For e. g. OECD (2007) after having addressed the negative consequences of imports from non-OECD countries and offshoring on labor, in the conclusion still argues that aggregate employment in general is not affected, and globalization is just changing the pattern of sectoral specialization to better exploit comparative advantage. Unrelated to their empirical findings about the negative employment effects of offshoring they also conclude that while some jobs are lost when production activities are relocated abroad, offshoring also generates a similar number of new jobs because it increases the scale of production by making firms more competitive. Similarly after having found the negative globalization effects on labor share, IMF (2007) conclude by claiming that the effects on labor shares do not show how workers' well-being is affected, and although the wage share went down, cheaper imports in developed countries increased the size of the pie and resulted in a net gain in total workers' compensation. Also in a previous report OECD (2005) concludes that it is not clear that trade with low-wage countries has been a barrier to achieving high employment and rising living standards in OECD countries. So the story is again that foreign competition disproportionately affects low skilled workers. However, they now also feel the need to add that the future need not resemble a smooth extrapolation of the past. Offshoring in not only low skilled manufacturing production but also high skilled service jobs is discussed with caution as part of this new form of international integration.

Once they evaluate the results as a mere indicator of a process with winners and losers, then the typical liberal policy implications follow: the need for further labor market deregulation, and methods to increase the wage flexibility and mobility of the unskilled workers as well as the so-called stability-oriented macroeconomic policy (e. g. OECD, 2005 and 2007; IMF, 2007). It is accepted that there may be the need for a temporary compensation of the displaced workers, but the use of active labor market policies is seen as the major key. However they see new hopes in the shift of the adverse effects towards skilled labor: particularly if the increasing tradability of services result in the displacement of workers with higher skills, then there may even be less need for proactive labor market schemes to acquire the necessary new skills, since these new generation of displaced workers are anyway skilled and can easily shift to other sectors!

Nevertheless, the discourse about more flexible labor markets, which sounds positive, is often hiding the fact that these policies increase the insecurity of workers. Particularly in the absence of policies to enhance the growth and job creation potential of the economy, labor market flexibility just ensures further income losses of labor. Moreover regarding the existing labor market institutions in Europe, empirical evidence does not support the mainstream view that their strength leads to unemployment; quite on the contrary their erosion goes hand in hand with the rise in unemployment and within labor inequality. If so, labor market deregulation creates only distributional effects, without changing the route of the problem, or making it even worse due to demand deficiency problems. Rather than dismantling the labor market institutions in Europe, we have to derive lessons from the achieved standards in the most developed cases for the New Member States.

The current income and growth policy in Europe, which places wage competitiveness at its center, is not only undesirable but also not sustainable. Wages that lag behind productivity growth, i.e. a low wage share in GDP, leads to a deficiency in aggregate demand, and even with flexible labor markets fails to generate growth with jobs. Thus there is room for improving both the wage share and growth at an EU level (Stockhammer et al., 2007). The policy design needs to address the bottlenecks at the demand side of the labor market, rather than a mere focus on the supply side.

The presence of robust negative effects of offshoring and outward FDI and the insistence in anti-labor policy recommendations are showing that capital is enjoying the benefits of openness via an uncontrolled mobility to exploit lower wages, worse working conditions or lower taxes elsewhere. Currently the organizational and political power of labor vs. capital is rather asymmetrical at an international scale. The unlimited freedom to move goods and capital across different markets and production units is very important for the profitability of the multinational corporations, and therefore they are willing to invest enormous resources through their collective organizations and individually to push for international rules that enhance their protections (e.g. investment agreements) and to avoid rules that limit their own mobility, flexibility, and access to profitable projects across the world (Burke and Epstein, 2001).

The fact that the cohesion funds are much more limited during the Eastern enlargement of the EU than those during the Southern enlargement makes these conditions worse. In this second stage of enlargement, EU has abandoned the task of cohesion and convergence to private capital flows and international trade. Stability and Growth Pact as well as the market friendly rules of the EU are in the meantime limiting any possibility in the NMS themselves for public investments as part of an industrial policy with well-defined strategic priorities. Disarmed of their policy tools, NMS find it a positive prospect to plainly attract FDI, particularly as opposed to a pure reliance on financial capital flows, which have had much more destructive effects in South East Asia and Latin America in the 1990s. So they are finding themselves in a position where too much labor chases too little capital, and thereby the multinationals have the chance to push labor at different production locations to compete with each other. These are the objective conditions under which the NMS find themselves obliged to get involved in wage as well as tax competition.

One policy reaction to this process in Austria could be to argue in favor of protectionist measures against capital outflow and offshoring. This is not an option within the EU. But even without the EU, it would be harder for the labor organizations in Austria alone to shift the balance of powers that radically against the excessively strong multinationals. Then Austria indeed has to see the European context as an advantage to push for more coordination of social and wage policy and regulation of capital markets.

Under these conditions the current dilemma of the European labor movement can be summarized as follows: While the workers of the West are scared of losing their jobs and former gains, the workers of the East are suspicious that the Western workers are protecting the good jobs from them, and in the meantime benefiting from their cheap labor in terms of cheap imports of consumption goods. As this poses obstacles to cooperation and coordination, firms are benefiting from this coordination failure. In the meantime, it is not clear that workers in the East are benefiting from openness under the current terms of bargaining between labor and capital. The host country effects of FDI or offshoring has not necessarily brought positive aspects for labor in the Eastern European countries. Their wage moderation has taken the form of modest wage increases in parallel with phenomenal productivity increases and significant job losses in manufacturing (Onaran, 2008; Onaran and Stockhammer, 2008). All workers may lose from such developments, with workers in higher-wage countries facing wage moderation while the prospects to improve wages in lower-wage countries get limited.

However, negative effects of openness or regional integration are not an unavoidable destiny, rather an outcome of the current domestic and international policies. In the European context, labor in the old and new member states as well as the accession countries have more common ground than they currently exploit. There is scope for international cooperation, in case the coordination failure can be overcome. This common ground must combine the ruling out of destructive wage (and tax) competition with a coherent and coordinated EU-wide policy for social and economic convergence. Thus redefining the rules of the game, coordinating the institutional setting of wage bargaining, incorporating productivity-led wage increases, and designing a European framework for minimum wages, working hours and conditions and corporate tax rates is the only alternative to readjust the playground back to conditions that are fairer to labor. Although under the given asymmetry of power at the EU level, it could be argued that trade unions would suffer from a greater lack of influence at the EU level compared to the national level, the effects of internationalization on labor has to be challenged at the international level as well. This can also empower the trade unions to change the bureaucratic/technocratic decision making process at the EU level. Nevertheless the issue of wage coordination and imposition of such minimum conditions is a process of adjustment that requires also the consensus of the labor in the lower wage areas of Eastern Europe. And understandably labor in the East can only be convinced to stop seeing lower wages as an advantage and the only way to attract private FDI from the West, if there is a systematic EU policy on regional convergence and social cohesion, which requires an economically relevant EU budget. Industrial and technology policy should set investment priorities and recognize the significance of public investment to achieve these ends. The regional and cross-country distribution of these investment programs should be based on dynamic long term targets instead of static comparative advantages. The target of monetary and fiscal policy should be to achieve full employment under decent working conditions as opposed to mere price stability. The flow of goods, services and capital should be subject to these social and economic convergence priorities. To achieve stability, particularly international coordination for tax harmonization and the regulation of financial markets need to be achieved.

This defines new roles and tasks for the trade unions in each country, since they are the political agents who have both the interest and the potential to push for such a shift in policy at the EU level. The task is not easy, since this also requires overcoming the coordination failure among the trade unions in different countries. The way until there is a rocky road, and before achieving big victories the trade unions in Austria and elsewhere in the old Member States must start with looking for ways of supporting the trade union movement in the New Member States. Positive experiences and improvements in working conditions can arise particularly if the trade unions organized in different affiliates of the same multinational company find ways of communicating and building solidarity networks. Such experiences can then form the building blocks for the coordination of labor organizations at a macro level. The other aspect that can be important as a strategic building block is to remove the barriers against migration from the East to Austria. Although one might suspect that this will increase the labor supply and thereby form downward pressures on particularly lower skilled workers in Austria even when it decreases the incentives for the firms to outsource or relocate production, the fact is that trade unions in Austria indeed have better chances of organizing the immigrant Eastern workers in Austria, compared to supporting the organization of the workers in the East around common goals. Trade union solidarity across the borders vs. organizing immigrant workers at home are not substitutes but complementary strategies. Only an EU-wide labor solidarity with many fronts struggling for the upward convergence of working conditions and an EU level industrial and regional redistribution policy could then change the excessively strong position of the multinationals and shift the direction of policy making at the EU level.

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Notes

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3 IMF (2007) presents a country panel at the aggregate level. The study claims that the income share of skilled workers rose by choosing the indicator as the share of skilled wage bill in economy wide value added, rather than the alternative indicator, which is the share of skilled wage bill in the skilled sectors' value added, which is also mentioned in the paper. According to the latter indicator the labor share of skilled workers is also falling in Europe and Japan.

4 This part is also published in Wirtshaft und Gesellschaft 3/08. See the full report at http://www.arbeiterkammer.at/pictures/d66/Globalisierung_und_Verteilung.pdf for details of data and sectoral classifications.