The great transformation in the global labour market

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The global expansion of higher education allows work traditionally reserved for the West to be done more cheaply and just as well in emerging nations, write Phillip Brown and Hugh Lauder. The result is that the wages and working conditions of western employees no longer set the global benchmark.

Indeed, it is possible that the early decades of the twenty-first century will become known not for a Great Recession but for a Great Transformation, for reasons we explain below. Understanding how the labour market is being transformed is as much art as science and it’s worth remembering Schumpeter’s observation that:

...since we are dealing with a process whose every element takes considerable time in revealing its true features and ultimate effects, there is no point in appraising the performance of that process ex visu of a given point of time; we must judge its performance over time, as it unfolds through decades or centuries. [1]

This should serve as a timely warning to those who are still willing to predict the outcome of the current western debt crisis.

Since the late 1990s we’ve been making regular research visits to China, India, South Korea, Singapore, Germany and the United States, investigating economic globalisation and the ‘knowledge’ economy. We wanted to assess whether western policy assumptions about the global knowledge wars, and a world divided between ‘head’ and ‘body’ nations, conformed to the worldviews of leading transnational companies and policy-makers in emerging economies such as China and India. What we discovered has profoundly changed our views on the labour market in a context of global capitalism.

For the purpose of this discussion there are four related trends that we’d like to highlight. All of which have contributed to the global auction for jobs. This auction was previously limited to relatively low-skilled workers in manufacturing and service sector employment, such as call centres. But it is now dividing the fortunes of more highly skilled workers, in a cut-price competition (reverse auction) for brainpower. At the same
time that some occupational elites have been able to use their market power to hike-up their salaries, many others, including university graduates, are confronting a challenge to both their ‘work’ and ‘market’ situations.

Trends in the global labour market

The globalisation of high skills

There has not only been a ‘great doubling’ in the size of the global workforce; there has also been a great doubling of university enrolments around the world, reaching close to 140 million by 2007. This has led to a massive increase in the global supply of highly qualified workers, able to compete on price as well as knowledge. China now has many more students in higher education than the United States, and is currently pursuing a ‘talent strategy’, with a target of increasing the numbers of graduates entering the labour market by an additional 10 million per annum between 2010 and 2020. Further expansion of higher education in India was also described by a senior policy maker in New Delhi as ‘a gift to the world’.

Although the quality of education will vary in countries experiencing rapid expansion in educational provision, it is nevertheless the case that Asia is also producing more engineers and physical scientists than Europe and North America combined. In both Britain and the United States, home students make up less than half of those undertaking postgraduate degrees in the strategically important areas of science, technology, engineering and mathematics (STEM).

Equally, the rapid expansion of tertiary education in China and India is more than a beauty contest aimed at attracting investment from Western multinational companies. It is also being used to build a high-tech research infrastructure that can serve as a springboard for the creation of home grown ‘national champions’.

The quality-cost revolution

If the barriers to higher education that previously protected the western middle classes from price competition are collapsing, this would remain less of a problem if emerging economies were unable to achieve the quality standards required to deliver high-quality goods and services, including research and development. However, while some issues remain, our research companies reported a rapid narrowing of the ‘quality’ gap, transforming the way they think about the global sourcing of high-skilled work. The new competition is based on quality and cost, as business organisation is being turned ‘inside out’: although companies need a decent infrastructure (roads, communications), and a supply of well educated and motivated workers, they are now able to set up ‘oasis operations’ – high-tech factories, offices and research facilities – in low-spec locations.

In financial services, jobs such as client research and product development, as well as back-office work such as data entry or invoicing, are being undertaken in emerging economies. As a senior Indian manager working for an American investment bank told us, ‘We’re not doing those menial call centre type jobs. It’s global work and that’s where we think we’ve been able to add a lot more value than what was initially expected, and that will continue.’
The quality-cost revolution has also opened the door for Asian companies to compete higher up the value chain for goods and services, by using their cost advantage to undercut western competitors. Consequently, many of the things we thought could only be done in the West can now be done anywhere in the world, not only more cheaply but sometimes better. And this in turn means that, as differences in productivity narrow between operations in different parts of the world, the wages and working conditions of western employees are no longer the global benchmark. This benchmark is shifting towards the conditions obtaining in high-skilled but lower-waged economies, and away from those in Western Europe and North America. These cost pressures are being driven not only by western companies, but also by companies from emerging economies that have global ambitions. Our research shows that Chinese and Indian companies are constructing a high-value, low-cost model in their attempt to compete for global market share.

The rise of digital Taylorism

While the policy spotlight has focused on the creation of new ideas, products and services, a different agenda has also been brought to the fore as a result of companies’ ability to leverage new technologies to globally align and coordinate business activities; this has enabled a greater standardisation of functions and jobs within the service sector, including within an increasing proportion of technical, managerial and professional roles.

Advances in communication technologies, including the capacity for digital processing and internet capability, have created the realistic possibility of developing global standards that reduce technical complexity and diversity. A building block or ‘Lego’ approach, using platform architectures and reusable IT components, is now seen by some companies as a more efficient way of making organisations more adaptable to change; and this can be applied to systems, processes and people.

Terms such as ‘financial services factory’ and ‘industrialisation’ are being applied by leading consultancy companies to describe the transformation of the service sector. Accenture Consulting is a proponent of ‘the concept of industrialization – breaking down processes and products into constituent components that can be recombined in a tailored, automated fashion – to non-manufacturing settings’. [2] This suggests that if the twentieth century brought what can be described as mechanical Taylorism – characterised by the Fordist production line, where the knowledge of craft workers was captured by management, codified and re-engineered in the shape of the moving assembly line – the twenty-first century is the age of digital Taylorism. This involves translating the knowledge work of individuals into working knowledge – through the extraction, codification and digitalisation of knowledge into software prescripts that can be transmitted and manipulated by others, regardless of location.

Digital Taylorism, therefore, takes the form of a power struggle within the middle classes, as future productivity gains will depend on reducing the autonomy and discretion of the majority of managers and professionals. This encourages the segmentation of ‘knowledge’ work so that ‘permission to think’ is granted only to a small proportion of employees responsible for driving the business forward. But such loss of autonomy for managers and professionals remains significantly different from what was experienced in the era of mechanical Taylorism, because digital technology eliminates the need for close,
over-the-shoulder, supervision. Control is remote because it is built into the software, so that the monitoring of activities is from a distance. But this does not eliminate the importance of employee motivation or the need for good customer-facing skills, as the standardisation required to achieve mass customisation still needs customers to feel that they are receiving a personalised service. This may contribute to a continuing demand for university graduates, although their roles will be far removed from the archetypal college graduate jobs of the past.

The global ‘war for talent’

In America and Britain the expansion of higher education has been associated with an increase in wage differentials. These have not only between university graduates and non-graduates, but exist within the graduate workforce itself. Frank and Cook argue that income inequalities are the result not of changes in the distribution of human capital – that some have invested more in their education and training than others – but of the changing structure of the job market. Even within occupations requiring a college education, those at the top of the occupational pyramid receive a disproportionate share of rewards, in what Frank and Cook call ‘winner-takes-all markets’. They argue that changes in domestic and global competition make ‘the most productive individuals more valuable’. [3] This argument is consistent with that of the consultants from McKinsey’s who popularised the idea of a ‘war for talent’. Whatever the reasons, virtually all those we spoke to in China, Korea, India and Singapore, as well as the United States, Germany and Britain, believed that they were in a war for talent, which was increasingly global. [4] It is assumed that the best people gravitate towards the elite universities. And this view is actively promoted by leading universities, given that higher education has also become a global business. The branding of universities and faculty members is integral to the organisation of academic enquiry. Claims to world-class standards depend on attracting ‘the best’ academics and forming alliances with elite universities elsewhere in the world, while recruiting the ‘right’ kinds of students. Universities play the same reputational games as companies, because it is a logical consequence of market competition.

In short, almost without exception, companies were not only ‘segmenting’ their educated workforce based on skills, credentials or expertise, but also on ‘performance’, driven by an attempt to reduce the cost of knowledge work, while simultaneously retaining what they perceived as top talent.

A global auction for jobs

These trends suggest that companies no longer need to divide their employment strategies between high-cost ‘head’ nations employing high-skilled, high-waged workers and ‘body’ nations that are restricted to low-skilled, low-waged jobs.

First wave globalisation in the 1980s and 1990s involved companies creating borderless value chains that were limited to low-skilled, low-value work, where virtually all higher value activities stayed close to the home base. Some companies experimented with outsourcing areas such as applied R&D, design and marketing to China and India, but this was both limited and piecemeal. HR strategies (including talent management) were tailored to national contexts. Companies were constrained in terms of the supply of intermediate and high-skilled workers, given their dependence on national education and
training systems.

Today’s second wave globalisation is giving transnational corporations much greater control over their sourcing options along the length of the value chain. These companies are seeking to globally integrate key aspects of their human resource functions, especially talent management, and to make strategic decisions that challenge most of their preconceived ideas about what can be done where, especially in terms of high-skilled, high-value work. The home base remains a key location for developing and coordinating corporate strategies, but the trend is towards greater experimentation with high-end work in low-cost locations. This may be thought of as a shift from a Toblerone model of organisation – with each national market having its own company hierarchy, including training function – to a ‘pick-and-mix’ model, where borders and boundaries become increasingly irrelevant within an overall global organisation.

The trends identified in our research suggest that a defining feature of the shift from multinational to transnational companies is the development of global webs of high-, medium- and low-skilled work that straddle national borders, where a growing proportion of high-value work is located in low-cost countries such as China and India. The global distribution of labour becomes a potential source of competitive advantage, because companies have more sourcing options – that may or may not be superior to the strategies deployed by competitors. But the value derived from these webs is not simply the connections they make between isolated individuals, companies, suppliers and others that are scattered around the world: much of the value is embedded in the network itself.

There is, however, little evidence of convergence in the employment strategies of companies participating in our studies. While some American and British companies were developing global skill webs based on a ‘transactional’ model of short-term profit maximisation and cost-reduction, others – especially from mainland Europe – adopted a ‘transformational’ model, aimed at developing global corporate capacity over the medium term, at the same time as having to respond to increasing price competition from competitors. These differences in corporate governance should not be under-estimated, because they are likely to define alternative routes to productivity and competitive advantage, based on different models of employment contract within the global auction for jobs.

Moreover, the way in which the global auction plays out in countries such as Britain, Germany or the United States will vary according to national context, including each country’s different labour market conditions, its domestic supply of graduates, and its political climate and industrial policies (active or passive). In Britain it is not only the financial crisis that has made the trading position of many families a lot tougher, but the obsession with free market competition that has left British workers seriously exposed to the full force of the global auction.

For the lucky few, often from more privileged backgrounds, the global auction will remain in forward gear, as their investments of effort, time and money will continue to be handsomely rewarded. But most others, including many with a similar educational background, will struggle to achieve the trappings of a middle-class lifestyle, while large sections of the working class will be increasingly excluded, through inferior education and declining occupational mobility.
These same wide variations in fortunes are already pronounced in countries such as China and India that are often thought to be winners in the global auction. These countries are characterised by extreme forms of uneven development, where the pre-industrial and the post-industrial share the same postcode. While some Chinese university graduates have never had it so good, others have been involved in riots as an expression of their frustration at being excluded from the Chinese economic dream. In India almost a third of the population continue to live in abject poverty.

The stark reality is that while the global labour market may contribute to the narrowing of some aspects of global inequality, it has contributed to widening inequalities within Britain and most other western economies. Alan Krueger, Chairman of the Council of Economic Advisers in the United States, has recently concluded that:

...the rise in inequality in the United States over the last three decades has reached the point that inequality in incomes is causing an unhealthy division in opportunities, and is a threat to our economic growth. Restoring a greater degree of fairness to the US job market would be good for businesses, good for the economy, and good for the country. [5]

But the key question is how this is going to be achieved, given the politics of austerity, and the fact that there will be no return to ‘business as usual’. Here we will limit ourselves to four observations.

**Problems for the ‘business as usual’ model**

**The death of ‘human capital’**

While the Conservative Coalition government continues to pursue ‘supply side’ solutions in terms of developing the marketable skills of the workforce, there is little evidence to support the claim that the value of human capital (skills, knowledge, etc.) will continue to rise as leading transnational companies restructure their global operations to deliver innovative ideas at the lowest cost. As described, it fails to understand how emerging economies including China and India are succeeding in ‘leap-frogging’ decades of technological development in the West to compete for high-skilled, high-value work, including research and development. Indeed, in the early decades of the twenty-first century the rise of the high-skilled, low-waged workforce may become a feature of both western and newly emerging economies.

The human capital theory on which official policy discourse is based is fundamentally flawed because it assumes that all can capitalise on the demands for knowledge and skills, simply because they are key to increasing productivity and profits. This assumption has always been problematic, but its case is at best ‘transitional’ - with relevance mainly to the second half of the twentieth century, which was characterised by educational expansion and a rising middle class. As access to tertiary education has become widespread, both within and across countries, it has outstripped demand for high-skilled workers, creating downward pressure on the incomes of skilled workers in western economies, along with some upward pressure on those in emerging economies. The credentials of highly skilled workers in the West are subject to the laws of diminishing
returns not because they are being out-smarted by graduates in China and India, but because companies are discovering new ways of doing the same things in more cost-effective ways.

The incompatibility of ‘cut and grow’ policies (the trained incapacity of neoliberal governments)

A recent editorial in the *New York Times* argued:

>Austerity is a political ideology masquerading as an economic policy. It rests on a myth, impervious to facts, that portrays all government spending as wasteful and harmful, and unnecessary to the recovery. [6]

Absolutely. It is only a blind ideological adherence to the magic of the market that could ignore the realities of today’s global capitalism. A number of leading economists, including Joseph Stiglitz, have pointed to the contribution to the consumer-led debt crisis in 2007 of a lack of aggregate demand and increasing wage inequalities. Soundings 50 Manchester’s Centre for Research in Socio-Cultural Change has calculated that public sector spending accounted for 57 per cent of the 2.2 million new jobs created in Britain between 1998 and 2007, suggesting that there is little prospect of the private sector picking up the slack as public sector jobs are being axed under the Conservative-led government’s austerity measures. But the problem is not only the absence of a growth strategy – which will inevitably require new public sector jobs – but the hollowing out of government capacity for industrial policy. After three decades of faith in the ability of market forces to deliver policy solutions, there is now a ‘trained incapacity’ at the heart of government departments. This will need to be addressed if industrial activism is to make a positive contribution to alleviating unemployment and returning the UK to economic growth.

The stifling of the entrepreneurial spirit

Egregious income inequalities and the lack of labour demand have also added to a high-stakes competition for the ‘best’ schools, colleges, and universities, as people attempt to win a competitive advantage in the labour market. This competition is not limited to the top of the jobs pyramid: BT received 24,000 applications in 2010 for 221 apprenticeships.

This has sparked a secret war for positional advantage, as people are forced to depend on a job market that is unable to cope with the rising tide of individual, social and political expectations. How people are positioned in the global auction has assumed paramount importance, as there are few alternative routes to success. To be defined as talented is crucial in avoiding the consequences of a negative bidding war.

Competition begins almost at birth. Children with ambitious parents confront increasing competition for the best prep-schools, top-ranked universities and leading employers, as they seek marks of distinction. Fuelled by insecurity and moral obligation to do the best for their children, some parents are adopting more desperate measures to give their children a competitive advantage: re-mortgaging their homes to pay for private schooling, or suddenly discovering religion to get their child into the local religious
school with a good reputation. Competitive pressures become even more intense for adult workers as companies re-examine their global sourcing options and stratify their managerial and professional workforce, so that only a small minority defined as ‘top talent’ are judged to be indispensable to the future of the organisation.

In such circumstances personal freedom and intellectual curiosity become secondary to the requirements of the competition for a livelihood. Almost every facet of a person’s public life and private self are implicated in the battle for distinction. Many aspiring students are caught in an opportunity trap that forces them to spend more time, effort and money on education in an attempt to fulfil their opportunities. The trap is that if everyone adopts the same tactics, such as getting a college degree or working longer hours to impress the boss, no one secures an advantage. As Fred Hirsch observed, ‘if everyone stands on tiptoe nobody gets a better view’. But by not standing on tiptoe you have no chance of seeing. The demands of the competition crowd out the space for inquisitive learning and the pursuit of the academic, technical and practical interests that are the source of innovative and enterprising ideas.

*The impossibility of education compensating for the realities of knowledge capitalism*

The trends outlined above suggest that the squeeze on the middle classes may be more embracing than has so far been realised, with the prospect of many university educated students becoming part of a high-skill, low-wage workforce. Previously, differences in income were assumed to reflect a meritocratic pyramid of individual achievement. This relationship has never been unproblematic but it is now in crisis, as the relationship between jobs, incomes and entitlements is being reconfigured.

The policy of ‘growing more opportunities’ is not going to work, so we need an alternative that depends on policies that reduce inequalities in opportunity and labour market outcomes. Education and the labour market ‘cannot compensate for society’ because they can’t mitigate the consequences of endemic inequalities in the competition for a livelihood, including access to elite schools, colleges and university, along with inherent inequalities in the hiring practices of major employers; they cannot compensate for gross inequalities in taxation, and the declining wage share that has been going to labour rather than capital – despite improvements in productivity – since well before the financial crisis; they cannot compensate for significant inequalities in the returns to human capital that can’t be explained by different levels of investment in education; and they cannot compensate for the social limits to growth that make it well-nigh impossible to increase social mobility without increasing middle class downward mobility.

This is not only a class issue; it’s also one of gender, ethnicity and age. Youth unemployment, for instance, is over 20 per cent across the European Union. In a double-dip recession Britain’s youth are increasingly dependent on job opportunities that result from ‘replacing’ older workers as they leave the workforce rather than through the creation of new jobs. But austerity measures introduced to ‘keep people in work’, along with the attack on pensions and public welfare, are inevitably keeping older workers in the workforce for longer (including those in professional and managerial jobs), making it more difficult for young people to find jobs.
Back to Schumpeter

The rise of a high-skilled, low-waged workforce not only means increasing inequalities and unmet expectations; it also challenges our understanding of justice and efficiency as cast in the bond between education, jobs and rewards. This wider debate not only raises fundamental questions about how we educate people today but how we educate them for tomorrow. The one-dimensional view of education as a preparation for employment is not a reflection of labour market realities but an attempt to maintain the idea that justice, efficiency and the good life can be achieved through the job market driven by economic growth. But there has never been a time when alternative visions of education, economy and society have been more important.

Our argument will ultimately be judged by Schumpeter’s test of time, but there is little doubt that the labour market is now in a titanic struggle between the forces of global capitalism and national democratic politics. Whatever the outcome, it is going to depend on the kind of political leadership that has not been seen in this country for a long time.

Footnotes


