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The New Rich-Rich Gap

The wealthy class is splitting into two elites, one national and threatened by outsourcing, the other international and profiting wildly from globalization.

By Robert B. Reich

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Issues 2006 - Almost 15 years ago, in "The Work of Nations," I described a three-tiered work force found in most advanced economies. At the bottom were workers who offer personal service, mainly in retail outlets, restaurants, hotels and hospitals. In the middle were production workers in factories or offices, performing simple, repetitive tasks. At the top were "symbolic analysts," like engineers or lawyers, who manipulate information to solve problems. Educated to think critically, almost all have university degrees. They were the knowledge workers of the new economy.

I predicted that advances in technology, and globalization, would widen the gaps in income and opportunity between these tiers. I was, sadly, prescient. In recent years, the top fifth of American workers has held 85 percent of the country's wealth. What I didn't predict was that the three tiers would change shape so dramatically. The top and bottom tiers are growing, and the middle shrinking, much faster than I expected. Symbolic analysts now make up more than a fifth of all jobs in advanced economies, up from about 15 percent 15 years ago. Their incomes in developing economies are soaring, relative to other workers'. In China, the wealthiest 5 percent now control half of all bank deposits. India's symbolic analysts are becoming a new national elite.

Two different groups of symbolic analysts are emerging: national and global. Most symbolic analysts still work within a national economy, manipulating various kinds of symbols with the aid of computers. They're at the core of their nations' middle class— accountants, engineers, lawyers, journalists and other university-trained professionals.

Yet a new group is emerging at the very top. They're CEOs and CFOs of global corporations, and partners and executives in global investment banks, law firms and consultancies. Unlike most national symbolic analysts, these global symbolic analysts conduct almost all their work in English, and share with one another an increasingly similar cosmopolitan culture.

Most global symbolic analysts have been educated at the same elite institutions—America's Ivy League universities, Oxford, Cambridge, the London School of Economics or the University of California, Berkeley. They work in similar environments—in glass-and-steel office towers in the world's largest cities, in jet planes and international-meeting resorts. And they feel as comfortable in New York, London or Geneva as they do in Hong Kong, Shanghai or Sydney. When they're not working—and they tend to work very hard—they live comfortably, and enjoy golf and first-class hotels. Their income and wealth far surpass those of national symbolic analysts.

There's a good economic reason that this group of global symbolic analysts emerged. Global commerce is now occurring on a scale and with a complexity that no commercial contract can adequately cover and no single legal system can sufficiently enforce. Hence, global dealmakers must rely to an ever greater extent on an extended network of people whom they trust.

This sort of trust depends on personal connections—on "relational capital" that draws on accumulated good will, and on confidence that anyone within that trusted circle can be relied on to draw in others equally trustworthy. Global symbolic analysts within a trusted circle share a kind of brand-name franchise that opens doors and consummates deals. They spend a lot of working time in front of computers and on the phone, but also devote significant time to face-to-face meetings, all over the world.

The growing number of symbolic analysts is also helping fuel the growth in the lowest tier, the personal-service workers. It used to be that about a third of the work forces in advanced economies were in person-to-person jobs; now, close to half are. Today, more Americans work in laundries and dry cleaners than in steel mills; more in hospitals and nursing homes than in banks and insurance companies. More work for Wal-Mart than for the entire U.S. automobile industry.

This is happening because busy households are "outsourcing" more housework, because populations of advanced economies are aging, raising demand for elder care, and because the richest 10th have so much discretionary income they can afford lots of pampering. They're hiring coaches, masseurs, drivers, gardeners, cooks and therapists of all kinds. Yet the supply of service workers is increasing faster than demand, due to a flood of new immigrants, and of workers no longer needed in routine production. As a result, the pay for these jobs is low and falling.

Meanwhile, the ranks of production workers have fallen, from about a third of advanced-economy work forces 15 years ago to one quarter. Analysts at Alliance Capital Management in New York, in a study of 20 major economies, found that between 1995 and 2002 more than 22 million factory jobs vanished. The United States wasn't even the biggest loser. America lost about 11 percent of its manufacturing jobs, while Japan lost 16 percent and Brazil lost 20 percent. The biggest surprise: China, which is fast becoming the manufacturing capital of the world, lost 15 percent of its manufacturing jobs.

What's going on? In two words: higher productivity. Factories are becoming more efficient, with new equipment and technology, and in nations like China, market reforms are replacing old state-run plans with modern ones. As a result, even as China produces more manufactured goods than ever before, millions of its factory workers have been laid off.

Routine office jobs are disappearing almost as fast as routine factory jobs. Almost any office task—claims adjusting, mortgage processing—can be done more cheaply and accurately these days by specialized software. Jobs that can't be turned into software are heading to low-wage countries as fast as telecom systems can reach them. Not only are call centers, tech support and routine computer coding going abroad, but so are jobs involved in patent applications, divorce papers and certain domains of research. This trend portends a growing clash of interests at the top, between national and global symbolic analysts.

More of the jobs of national symbolic analysts in advanced economies—including software programmers and engineers, designers and researchers—are heading to national symbolic analysts in China, India and locations in Southeast Asia. But the trend is undeniable. Already Siemens, Nokia and General Electric are conducting manufacturing-related R&D in China. As a result, professionals in advanced economies are becoming worried about their job security, and less enamored of free trade and open capital markets. Global symbolic analysts, on the other hand, have a huge and growing stake in globalization. Their relational capital is far less transferable to Asia. Hence, as globalization intensifies, their skills are in ever greater demand.

The fears of national symbolic analysts are premature. The demand for their skills is still rising, notwithstanding the new competition. The earnings of university graduates in the United States and most advanced economies continue to outpace the earnings of those with only secondary-school diplomas, and the earnings of people with graduate and professional degrees are rising even faster. If demand for symbolic analysts were dropping, we would expect the opposite.

Yet unless the advanced economies invest more in education and basic R&D, they could lose their global lead in science, engineering and high-value-added production within a few decades. China and India are now graduating more engineers and computer scientists than are emerging from American and European universities. At some point, national symbolic analysts in advanced economies will lose ground. Their global brethren, meanwhile, will continue to dominate global commerce. The income and wealth gap between them will widen into a chasm. They will live, literally, in different cultures.

Reich is professor of social and economic policy at Brandeis University and former U.S. secretary of Labor.

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