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978-1-107-02699-5 - Outsourcing Economics: Global Value Chains in Capitalist Development

William Milberg and Deborah Winkler

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OUTSOURCING ECONOMICS

Outsourcing Economics has a double meaning. First, it is a book about the economics of outsourcing. Second, it examines the way that economists have understood globalization as a pure market phenomenon, and as a result have “outsourced” the explanation of world economic forces to other disciplines. Markets are embedded in a set of institutions – labor, government, corporate, civil society, and household – that mold the power asymmetries that influence the distribution of the gains from globalization. In this book, William Milberg and Deborah Winkler propose an institutional theory of trade and development starting with the growth of global value chains – international networks of production that have restructured the global economy and its governance over the past twenty-five years. They find that expanded offshoring leads to a lower labor share of income in the United States and to greater economic insecurity in industrialized countries that lack institutions supporting workers. They also find that offshoring allows firms to reduce domestic investment and focus on finance and short-run stock movements. Economic development has become synonymous with “upgrading” in global value chains, but this is not sufficient for improved wages or labor standards, raising obstacles to sustained economic development for many emerging economies.

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Outsourcing Economics

Global Value Chains in Capitalist Development

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New School for Social Research, New York

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For Sylvie, Eva, and Natalie – WM

For my parents – DW

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List of Variables

<i>A</i>	Sector, good <i>A</i>
<i>a</i>	Labor coefficient
<i>AC</i>	Autonomous capitalists' consumption
<i>AS</i>	Asset specificity
<i>B</i>	Sector, good <i>B</i>
<i>C</i>	Costs
<i>c</i>	Country dimension
C_{Π}	Marginal propensity to consume out of profit income
<i>D</i>	Demand
<i>DEV</i>	Developing countries
D_i	Unobserved time-constant fixed sector effect
D_t	Unobserved cross-sector fixed year effect
<i>E</i>	Exchange rate
<i>EPL</i>	Employment protection legislation
<i>EX</i>	Exports
<i>FIN</i>	Financialization
<i>G</i>	Government spending
<i>H</i>	Hierarchy
<i>HHI</i>	Herfindahl-Hirschman Index
<i>I</i>	Private investment
<i>i</i>	Sector dimension, product type
<i>IM</i>	Imports
<i>j/J</i>	Non-energy input
<i>K</i>	Capital
<i>k</i>	Capital intensity = capital divided by output or value added
k^{equip}	Capital intensity of equipment and software
k^{struc}	Capital intensity of structures
<i>L</i>	Labor

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L^D	Demand for labor
LBP	Labor bargaining power
LMP	Spending on labor market programs / gross domestic product
LP	Labor productivity = value added / employment
LS	Labor share = compensation of employees / value added
M	Market
m	Markup
MP	Import prices
OSE	Energy offshoring intensity = imported energy inputs / total inputs
OSG	Goods offshoring intensity = manufacturing imports from low- and middle-income countries / total manufacturing imports
OSJ	Offshoring intensity of input j = imported inputs j / total non-energy inputs
OSM	Materials offshoring intensity = imported material inputs / total non-energy inputs
OSS	Services offshoring intensity = imported service inputs / total non-energy inputs
P	Output price, good price
P^{inp}	Intermediate input price
\bar{P}	Average price
PS	Profit share = $1 - LS$
q	Consumption
R	Interest rate
r	Rental rate on capital
ROE	Return on equity
$RULC$	Relative unit labor costs
S_w	Savings out of wage income
T	Technology shifter, technological progress
t	Time dimension
T^K	Capital-augmenting technological progress
T^L	Labor-augmenting technological progress
TR	Tax revenue
U	Utility
u	Average prime costs
UND	Union density = number of union members / number of workers
URB_LT	Unemployment replacement benefit (long-term)
URB_ST	Unemployment replacement benefit (short-term)
v	Share of inputs produced abroad

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VA	Value added
W	World
w	Wage rate
WI	Wage income
X	Hybrid
Y	Output, income
Y^D	Demand for output
z	“Upgrading ratio” = growth in value added / growth in exports
ε	Random error term
Π	Total profits
σ	Elasticity of substitution

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List of Abbreviations

B.	Billion
BEA	Bureau of Economic Analysis
BEC	Broad economic categories
CAGR	Compound annual growth rate
CEO	Chief executive officer
CEPR	Centre for Economic Policy Research
DESA	Department of Economic and Social Affairs
EOI	Export-oriented industrialization
EPI	Economic Policy Institute
EPL	Employment protection legislation
EPZ	Export processing zone
EU	European Union
FDI	Foreign direct investment
GB	Gigabyte
GDP	Gross domestic product
GPN	Global production network
GVA	Gross value added
GVC	Global value chain
HHI	Herfindahl-Hirschman index
H-O	Heckscher-Ohlin
H-O-W	Heckscher-Ohlin-Wood
ICC	International Chamber of Commerce
ICT	Information and communication technology
ILO	International Labour Office
IMF	International Monetary Fund
ISI	Import substitution industrialization
ISIC	International Standard Industrial Classification
IT	Information technology

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List of Abbreviations

LMICs	Low- and middle-income countries
NBER	National Bureau of Economic Research
n.e.s.	Not elsewhere specified
NIE	New International Economics
M.	Million
M&A	Merger and acquisition
MNC	Multinational corporation
OECD	Organisation of Economic Co-operation and Development
OLS	Ordinary Least Squares
OPEC	Organization of the Petroleum Exporting Countries
PhD	Doctor of Philosophy
R&D	Research and development
ROE	Return on equity
ROFA	Return on foreign assets
SEZ	Special economic zone
SITC	Standard International Trade Classification
U.K.	United Kingdom
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNIDO	United Nations Industrial Development Organization
U.S.	United States
VSI	Vertically specialized industrialization
WTO	World Trade Organization
\$	U.S. Dollar

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