
Lived Effects of the Contemporary Economy: Globalization, Inequality, and Consumer Society

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It is now commonplace to refer to such diverse phenomena as globalization, increases in economic inequality, the decline of class-based societies, the intensification of consumerism, and global cultural homogenization as though they were all part of the same problematic. Indeed, all these elements seem in various ways to characterize our experience of the current era. Yet their connections remain obscure. There is little consensus about how significant the recent increases in income inequality are, and even less over their relationship to globalization. Beyond this, those who call attention to growing inequality have a difficult time explaining the absence of organized discontent in the political and cultural spheres. Those who associate globalization with a loss of diversity—a deepening massification of Western culture—are at a loss to account for the stunning new variety and rapid change in the outputs of knowledge-based capitalism.

It is difficult to confront these associations in any structured way because the phenomena they refer to remain the preserves of specialized academic fields. Each such field documents a piece of the bigger picture, and as a result we remain unable to account for seemingly contradictory aspects of the contemporary experience. If our standard for the analysis of growing income inequality is limited to the distribution of money income, for example, we will find it difficult to understand why, in the real world, people do not seem very upset about it.

One way to understand the connections between what economists say about the economy and how the rest of us feel and act in relation to it is provided by the

concept of consumption and its corollary in the cultural sphere, consumerism. Many of the political effects of globalization—what is regretted, what is celebrated, what meets with passivity—that seem contradictory when viewed in either exclusively cultural or economic terms can be understood in terms of the relationship between globalization and the evolution of consumer societies. But beyond this, I will argue, the rise of consumerist identities helps explain the economic processes of globalization—most notably, the diffusion of labor-saving technologies—which in turn are responsible for much of the recent rise in inequality. These linkages do not appear in standard analyses.

This essay's reasoning is drawn primarily from economics, with elements from other disciplines brought in as needed. Although I have made every effort to keep technical language to a minimum, I have found it helpful in places to situate my analysis within this well-developed literature in order to identify the mechanisms that can link globalization and inequality.

Income Inequality and Globalization

Increasing Inequality Income inequality has increased in most of the major industrial countries of Western Europe and North America, as well as in most of the middle-income developing countries, over the last twenty years, a period that has also witnessed unprecedented growth in world trade. The degree of inequality increase has shown some variation: highest in the United States and Britain, lower in most of the economies of continental Europe, still lower in Scandinavia (Crafts 1998; Johnson and Webb 1993). Whether measured by the Gini coefficient or by the ratio of the income of the lowest 20 percent to that of the highest 20 percent, the trend is similar (Krugman 1992; Krugman and Lawrence 1993; Hanson and Harrison 1994; Katz, Loveman, and Blanchflower 1995).

In virtually all the major developed economies, moreover, a major component of growth in income inequality is the extraordinary growth of income at the top. We can summarize the facts roughly as follows. The top 20 percent or so of the population has seen very rapid growth in its real incomes and shares of total income. Within this group, the income share of the top 1 percent of U.S. earners has more than doubled since 1979 (Frank and Cook 1995). In 1979, the ninety-fifth percentile earner received ten times as much as the fifth, but in 1995, the corresponding ratio was more than twenty-five times. As a result, the worth of the rich and superrich, both absolutely and proportionately, has grown considerably (Frank 1999). The middle 60 percent or so had also enjoyed growth in real household income from the late 1970s through the

1980s, though at a rate much lower than that of the top 20 percent.¹ In the 1990s, however, the results have been quite different; the median household actually lost 2 percent of its income in real terms (Frank 1999). There is considerable debate among economists about the character of middle-class incomes. Some claim that what appears to be relative stability is attributable to the increasing presence of two-earner households.² Others, however, maintain that average wages have continued to rise in most countries, albeit at a much slower rate than for most of the post–World War II period. But it is indisputable that the *share* of this group in total income has declined. In other words, a great deal of income—the proportion that would have been accrued had the group’s rate of growth but remained constant—has in fact been foregone by its members.

The bottom 20 percent seems to offer a more complex story. In 1996, the percentage of the total population living in poverty (defined by the Organization for Economic Cooperation and Development [OECD] as subsistence on family or individual income amounting to less than 50 percent of the national median) was about 14 percent in France and the United States. The poverty rate is slightly lower in Germany and the Nordic countries, and higher in the United Kingdom (circa 22 percent at the present time). Except in the case of Britain—where it exploded under Thatcher—the poverty rate in most countries has risen slightly, if at all, over the last twenty years and is still well below its postwar peak, which was attained in most countries in the 1950s and 1960s (Jencks 1993).

Given that overall absolute income has been rising, it follows that at least some of the people in the bottom 20 percent, including some officially defined as poor, might also have experienced real income increases over the past twenty years. Yet about a third of the poor became more poor in absolute terms (5 to 10 percent of the population) (Jencks 1993). This proportion is similar to that of the urban ghetto population in the United States. Thus, while most of the population is enjoying higher absolute real incomes, and some part of those living below the

1. At the end of the 1980s, there was considerable opinion that middle-class incomes had actually fallen in the United States since the late 1970s. But the Boskin Commission’s (Boskin 1996) reevaluation of the consumer price index showed that inflation had actually been considerably lower than had previously been thought. Though the details of the commission’s findings provoked considerable controversy, there was little challenge to the overall conclusion. In the second half of this article, I will discuss one of the reasons for the inflation rate’s reevaluation downward: the advent of higher product quality in many areas of the economy, so that prices reflect not inflation per se, but quality improvements.

2. See the special issue of the *Quarterly Journal of Economics*, February 1992, and Mishel, Bernstein, and Schmitt 1998.

poverty line is also better off in absolute terms, there remains a group suffering ever harder and deeper poverty (Jencks 1993; Wilson 1987).

To sum up: The general picture in Western Europe, North America, and a number of middle-income developing countries is a combination of decline and stagnation at the bottom, moderate growth and relative loss in the middle, and big growth at the top.

Wages and Occupations: The Globalization Hypothesis in Economics Explaining this inequality increase, however, turns out to be difficult. Some of the standard explanations for increasing income inequality attribute it directly to globalization. In economics, the approach is to examine the impact of international trade in goods and services on the domestic labor market in terms of labor demand and wages. According to trade theory going back as far as David Ricardo—and adapted for modern use as the Heckscher-Ohlin model—international trade cannot affect domestic wages directly, but does so indirectly through the domestic prices of imported goods. If imports come from an area with lower wages, then under competitive conditions their price should decline. Either the domestic labor market meets the labor prices of the foreign country, or the domestic firms are pushed out of the market. In the latter, more likely case, the workers so released will have to find other things to do. In the short run, such fixed skills as they can offer are now in oversupply. In most of the literature, low-skilled manual manufacturing workers are considered to belong to this category. Oversupply means that workers become unemployed and then often accept jobs at lower wages, because the above-mentioned price effects of trade create new and lower equilibrium prices for the products concerned. In other words, the effects of trade on relative domestic product prices are reflected in a new set of interindustry wage differentials.

This process, known as *factor price equalization*, is formalized in the Stolper-Samuelson extension of Heckscher-Ohlin trade theory: for a given factor, trade gradually brings about a convergence of the factor's prices to the world level. This model provides a compelling explanation for income loss among those low-skilled workers in industrialized countries whose outputs can be made in the developing world. But key to this line of analysis—as I will demonstrate later on—is the notion that technologies of production are fixed. In the Stolper-Samuelson model, there is a fixed relationship between the outputs of goods and the inputs of factors. This implies a similarly fixed relationship between the prices of goods and the wages of factors. The model does not take into account any difference in production functions in, say, the clothing industries of the

United States and Mexico. What varies is where the factors are used and how the location of industries affects domestic factor demands and prices.

But this is only the starting point for economists analyzing the possible effects of globalization on wages and incomes. The next step is to proceed to investigations of the complex interactions between such sectoral labor market effects and the labor markets of other industries, their product prices, and their output levels. These are known as *partial* or *general equilibrium approaches*. They generally posit that a wealthy economy faced with import competition will move up the product chain into more sophisticated intermediate and final goods and services. According to equilibrium theories, clothing and shoe production may go offshore, for example, but in compensation, more high-tech and advanced goods and services will be developed and exported. In the highly developed economy, then, there is a shift to different goods and to more of them—a global “filtering” of activities into a new geographical pattern. Labor demand shifts with this change in specialization. Thus, the shock of trade liberalization could lead initially to declining wages in import-sensitive sectors and rising relative wages in export-oriented sectors.

For example, if the United States imported 10 additional children’s toys, which could be produced by American workers, the effective supply of unskilled workers would increase by five (or alternatively, domestic demand for such workers would fall by five) compared with the alternative in which those 10 toys were produced domestically. This five-worker shift in the supply-demand balance would put pressure on unskilled wages to fall, causing those wages to fall in accord with the relevant elasticity. Any trade-balancing flow of exports would, contrarily, reduce the effective endowment of skilled workers (raise their demand) and thus increase their pay. (Freeman 1995: 23)

Most general equilibrium theories predict a full absorption of labor initially displaced by imports. Once this is achieved, there is no further change—the ratio of prices between import and export sectors remains constant (Richardson 1995). Ongoing trade under conditions of openness will not affect relative factor prices because an economy in equilibrium moving from one endogenous state to another (along a given “production possibility frontier”) has no mechanism to change relative factor rewards.

Empirical research on the topic is quite difficult in terms of methods and data and has turned up very mixed results (see Bound and Johnson 1992; Freeman 1995; Nickell and Bell 1995; Katz and Murphy 1992; Katz, Loveman, and

Blanchflower 1995). In attempting to measure the factor content of imports to determine whether they are dominated by low-wage low-skill labor, economists have found very modest contributions to American income inequality (Lawrence and Slaughter 1994; Borjas, Freeman, and Katz 1992). When the prices of imports are measured to see if they are falling relative to domestically produced goods, the conclusion is that there is an effect but that it is rather small (Sachs and Schatz 1994; Feenstra and Hanson 1996).³ In contrast with these findings, Berman, Bound, and Griliches (1994) find that the negative effect on unskilled wages applies to all sectors, not just import-heavy ones. All in all, William Cline (1997), in an attempt to synthesize the evidence, suggests that somewhere between 5 and 15 percent of the observed increase in inequality has to do with import competition from low-wage countries. Most estimates are that at maximum, there has been a 5 percent reduction of unskilled labor demand in the United States attributable to low-wage import substitutes. Manufactured imports from low-wage countries accounted for only 3 percent of American GDP in 1990, and this is concentrated in certain highly visible consumer sectors such as clothing (Cline 1997). Studies such as these have led to the mainstream conclusion that it is impossible for the “tail” of low-wage imports to wag the “dog” of labor markets.

There are dissenters from this position, however. Adrian Wood (1994, 1995) claims that in most of the empirical research, the equality-inducing effects of North-South trade are underestimated by a factor of up to four. This discrepancy is rooted in different ways of calculating how much labor is displaced when production moves abroad. He goes on to argue that the static picture of technology as presented in standard theory is incorrect. A common reaction to low-wage competition on the part of firms in developed countries has been precisely to search for new methods of production that economize on unskilled labor. With this argument, Wood abandons a key element of standard general equilibrium models.

A few general equilibrium economists have come to the same conclusion via a different route. They hold that the sectors that expand as a result of trade should take in resources from the rest of the economy, but will nevertheless be unable to

3. In this regard, Wood (1995: 73) notes: “This heterogeneity of goods within statistically defined sectors is a major limitation of all the price data and one which has become worse over time. Manufactured imports from developing countries used to be concentrated on a few sectors, such as apparel and footwear, but are now spread across many sectors, partly because, for a wide range of goods, the production process has been split up, with the labor-intensive stages performed in developing countries, and the skill-intensive ones at home.”

absorb workers likely to be released from other sectors by the initial opening to trade unless wages fall (Leamer 1994, 1995). Unlike in the Stolper-Samuelson model, these falling wages have effects on the production techniques of the remaining sectors. For example, the developed economy's expanding sectors might substitute more labor for capital because of the fresh availability of cheap labor, and though this would absorb some displaced labor, it would also widen inter-sectoral productivity gaps and hence maintain wage inequality in spite of a return to full employment.

Furthermore, none of the standard work takes into account what might be the most important impact of trade on wages. Production is increasingly "disintegrated" into geographically separated tasks and "shared" among countries. Robert Feenstra describes this global outsourcing through the example of the Barbie Doll:

The raw materials for the doll are obtained from Taiwan and Japan. . . . the molds themselves come from the United States, as do additional paints used in decorating the dolls. Other than labor, China supplies only the cotton cloth used for dresses. Of the \$2 export value for the dolls when they leave Hong Kong for the United States, about 35 cents covers Chinese labor, 65 cents the cost of materials, and the remainder covers transportation and overhead. . . . The majority of value-added is from US activity. (Feenstra 1998: 35)

In other words, in many U.S.-made goods there are large foreign components with potentially big effects on U.S. labor demand and wages. Measuring only final products from each country is likely to mask these effects, which are upstream in the value chain.

Finally, Wood calls attention to the large probable impact of traded services on the wages of unskilled workers, none of which are taken into account by the standard calculations, which are based only on manufacturing. All in all, Wood claims that a 20 percent decline in the demand for skilled labor could be accounted for by North-South trade, not the 5 percent of the standard approaches.

The bigger picture of inequality presents other problems. While the efforts discussed above help describe the drop in relative wages at the very bottom, they do not explain what has happened to everyone else. Three additional issues can be identified here.

First, absolute and relative incomes have grown rapidly at the top of the distribution—not just among the superrich, but among the college-educated classes

in general (Mishel, Bernstein, and Schmitt 1998). Yet many of the “advanced product” sectors in which developed countries are coming to specialize in the face of global trade, and which employ the college educated, have occupational and wage compositions that are changing rapidly. There are indications that some jobs are being downskilled. More importantly, the supply of highly skilled, or college-educated, labor has expanded rapidly, and this increase should have pushed down relative wages in these jobs. For the moment, however, this does not appear to have occurred.

Second, between the unskilled who are affected by imports and these highly skilled college graduates there would seem to be a vast middle ground of semi-skilled labor. There are many industries, or parts of industries, in which semi-skilled labor is prominent, and these people seem to have lost out in the last couple of decades. But most of the standard approaches suggest that their wages should have risen with trade and relocation. This is because in the kinds of industries that traditionally employ semiskilled labor (for instance, capital-intensive manufacturing of consumer durables), the assembly processes, which employ unskilled labor, have been relocated to less developed areas, but the “intermediate goods” portions remain largely in the developed countries. These intermediate or upstream parts of the industries now export more than they did previously, and economists argue that this should be reflected in a rising relative demand for semiskilled labor in these sectors and correspondingly rising rewards. Empirical research does not bear this out.

Third, interoccupational wage differentials are not the only ones that have changed. Even more dramatic has been the shift of wages *within* occupational categories. In many occupations, the spread of wages has risen over the past decade, such that there has been an individualization of remunerations provided to people performing the same type of work, even within the same firms (Gottschalk and Moffitt 1994; Kramarz, Lolliver, and Pele 1994). It is unclear whether and how this could be related to globalization.

Technological Change as the Source of Increasing Inequality Trade-based explanations for increasing inequality are generally set against the “technological change hypothesis,” which holds that it is automation and organizational change that shift labor demand away from the less skilled and toward the more skilled, thereby widening the gap in their incomes. This argument focuses on factoral or occupational as opposed to sectoral skill differences. This can have a powerful effect on relative sectoral output prices (and hence wages), but such developments are seen as the result of variable rates of technological change *between*

sectors. There are two versions of this story. What might be called the empirical version simply tracks the elasticities of labor demand. But such commonsense reasoning is rejected by most economists as being insufficiently theoretical. They turn to more complex equilibrium-based models of intersectoral adjustments. These models rephrase the technology effect as differential rates of total factor productivity (TFP) change between sectors, leading to durable differences in factor rewards (Richardson 1995). The factor rewards of skilled workers are increasing relative to those of unskilled workers in those sectors in which advanced economies are coming to specialize (high technology manufacturing, capital goods, advanced services, high quality goods) because their productivity is rising faster than those sectors with a high proportion of unskilled workers.

Most of the literature favors this general perspective, whether in its factorial or its sectoral focus, over the global-trade-based explanation of increasing inequality (as noted in the review by Freeman 1995). But, as seen above, there are observers such as Edward Leamer (1994, 1995), Feenstra (1998) and Wood (1994, 1995) who see technological change and globalization as intimately related. This is a theme to which I will return shortly.

The Four Tiers of Globalization I want to argue that certain causes of inequality can be understood only through a combination of the technological change and globalization explanations. These approaches combined allow us to take into account two lacunae: (1) the broad category of semiskilled—as opposed to unskilled—workers and (2) the effects of trade among developed countries as well as between the North and the South.⁴ This combined approach will in turn yield the basis for a consideration of the role of consumerism in globalization and technological change.

Before moving on to consider this alternative explanation of inequality, however, it might be helpful to present a broad-brush portrait of sectors in the industrialized West in the age of globalization.

At the top of a contemporary industrialized economy are activities that are globalized because they are rooted in scarce, unevenly distributed skills. There are certain sectors in which the highest-quality products enjoy global markets. The market may be accessible to them at very low or zero marginal cost thanks to the increasing reach of communications and infrastructure; alternatively, the supply of the product or service in question may be extremely limited, so that, in

4. Statistically speaking, North-South trade is a drop in the bucket compared with trade among the industrialized countries: the former is about 15 percent of the total, the latter more than 80 percent.

the absence of a substitute, supplemental costs to market are not an issue. The high-powered corporate attorney, the film or television star, and the internationally known medical specialist are examples of this internationalization of labor services. The providers of such services have earnings levels that are very high relative to the average in their occupational categories. Though such privileged individuals constitute a very small percentage of the total, their absolute numbers and absolute and relative earnings have been increasing rapidly in recent years. When a sports star, recording artist, international lawyer, or top executive gets fabulous compensation, it is because her or his services now have worldwide markets. Some of the reshaping of income distribution toward the top is a result of this “winner-take-all” phenomenon (Frank and Cook 1995).

Another part of this first economic tier also feeds the top end of the labor market. Most industrialized economies have certain sectors in which they specialize; they display high concentrations of certain industries (as reflected in a variety of indicators such as high location quotients). This uneven distribution of activities is due to the uneven supply of the individual or collective skills on which they depend. Examples include aerospace (United States, United Kingdom, France), high-quality shoes (Italy), machine tools (Germany, Japan), Hollywood films (United States), specialized financial products (United States, United Kingdom), and civil engineering services (France, United States) (for France, Italy, and United States, see Storper and Salais 1997; for a broader picture, see Porter 1990). These sectors are generally more labor-intensive and higher waged than the economy as a whole. It is the higher overall wages in these sectors, along with earnings of the winner-take-all class, that drive the previously mentioned college/non-college educated wage gap in economies where the favored industries are science- and engineering-intensive (for example, the United States). The college/non-college educated gap is less important in places such as Italy, Germany, or Denmark, owing to the medium-tech composition of the industries emphasized by these economies. In these cases, there is increasing income inequality within manufacturing occupations or sectors (Hanson and Harrison 1994; Maskell et al. 1998). Nevertheless, in spite of the wage gap, it can generally be said that these world-serving industrial specialties represent the “good” side of globalization for any country.

In the second tier of the economy are found the industries that can be relocated to low-skill, cheap-labor areas, and which are therefore the focus of most anxiety about globalization. Average wages and income shares have been dropping for workers in these industries in the developed countries. But, as noted

above, they probably account for no more than 5 percent of total labor demand in the rich economies and a maximum of 10 to 15 percent of the change in income shares (in the United States) or unemployment (in Europe). The industries concerned are generally consumer nondurables (such as clothing and shoes) or the assembly phases of durable goods (such as electrical and electronic goods). Most of the intermediate goods (for example, production equipment, conception, marketing services) are still produced in the richer nations. This is globalization as depicted in the Stolper-Samuelson model.

The third tier of industries consists of services that are partly or completely nontradable. Fast food has to be prepared close to the point of consumption, so it cannot be offshored; dry cleaning and car repair must be located close to the customer. It is not possible to relocate these activities to low-wage countries. Nonetheless, because such jobs have few educational requirements, and because there is little tradition of unionization in many of the countries under consideration, they often pay very low wages. European countries have tried to raise wages in these sectors through minimum wage policy, but the principal effect of this has been to make services more automated than in the United States. The jobs that do remain are at the low end of the wage spectrum. Identifying a reason for the decline in relative wages in this tier is difficult. Is it due to increasing competition from low-skilled workers shed from the import-sensitive tradable manufacturing sectors? Or is it due to immigration, which swells the labor pool?

The fourth tier is traditionally associated with the middle of the income distribution. It consists of sectors using semiskilled labor in routine manufacturing (for instance, consumer durables) and certain services that have not been or cannot be offshored to low-wage countries. These are the sectors upon which the postwar middle-class miracle was largely built. But it is fairly well accepted that in most cases, their recent employment growth has been inferior to their productivity growth (Mishel, Bernstein, and Schmitt 1998). A steep decline in relative demand for their labor has resulted in a weakening position for semiskilled workers in the labor market. Their real wages have suffered stagnation, as in Europe, or outright decline, as in the United States. And while trade and foreign direct investment have been rising in these sectors, the kind of globalization this represents is altogether different from that characterizing the industries discussed above. In general, in this tier, only a few phases in the commodity chain (for instance, assembly) are relocated to developing countries. The great mass of value-added remains in the high-wage countries. Globalization as it emerges here essentially concerns cross-investment among countries with high wages, most of it trans-

atlantic, and imports of manufactured goods from Japan to the West. Much of this is motivated by the rationalization of intermediate inputs and product differentiation. Hence it takes the form of rapidly growing intraindustry (and sometimes intrafirm) trade.⁵

This decline in the real wages of semiskilled, as opposed to unskilled, labor is thus characteristic of a broad swath of industries, to some degree globalized but still primarily concentrated within the developed countries. This phenomenon is a major cause of increasing income inequality.⁶ In this context, the plight of semiskilled workers poses the debate with its major unsolved question. It is unlikely that their wages have fallen because of a decline in their relative productivity, since their jobs are disappearing precisely because of productivity-enhancing technical change. In this light, the argument made by Leamer (1994, 1995) seems to apply to certain “traditional” import-competing sectors, but not to many capital-intensive industries. For the semiskilled occupations, then, declining relative wages are consistent with declining labor demand but inconsistent with rising productivity.

Technological Change: A Result of Globalization by Ideas Why has technological change continued to reduce demand for semiskilled labor, even though the combined productivity and wage effects should have leveled off the rate of change? A key to answering this question comes by considering the process by which such technological change might have come about. Most critically, why and how did such technological changes occur in so many different countries at roughly the same time (Berman, Bound, and Machin 1997)? There are three possible responses. One would be to attribute change to pressures from global financial capital; but there are strong doubts about the veracity of such an explanation, because investors are interested in overall results, not in detailed management of production processes. A second would claim that countries with similar price levels should display similar production techniques. It is conceivable that all the developed economies, because they face similar developmental forces, have moved together from one envelope of feasible production possibilities (known as PPF, or “production possibility frontier”) to another. But in this case, there is no reason for relative factor rewards to change (the formal model for this widely

5. This is predicted by trade and location theory. See Krugman 1995, which I review in Storper 1999.

6. The workers who are really being referred to in this argument are the population that corresponds with the postwar “middle class,” or in other words semiskilled workers. The problem with most of the empirical and theoretical literature that has been reviewed in this article is its simplistic distinction between skilled and unskilled labor. Part of the reluctance to consider semiskilled workers must be attributed to the difficulty of defining them as a discrete category with the indicators available.

accepted point is presented in Richardson 1995). Moreover, virtually all of the detailed historical studies of industrial technology go against this notion of a “spontaneous” convergence of technologies, showing rather that convergence happens because of the spatial and temporal diffusion of such technologies, which have local origins (Hounshell 1974; Scranton 1997).

The third hypothesis can be introduced with the following points:

1. Many economic sectors are undergoing a global diffusion of certain labor-saving, capital-augmenting production techniques.
2. Producers implement new technologies *defensively*, because they fear loss of markets to foreign competitors if they do not. In this sense, technological change and globalization are not mutually exclusive, but two sides of the same process. In other words, I am suggesting that Wood’s argument about technological change due to low-wage import competition can also be applied to North-North global competition (Western Europe, North America, Japan, and a few other places), and in different sectors or parts of sectors than for the North-South case. Such technological change may be considered neutral across sectors, but biased against unskilled workers in virtually every sector it affects.
3. Globalization—relocation and trade—makes such defensiveness rational. Even though industrialized countries, prior to trade liberalization, may have had roughly similar factor costs and limited productivity differentials, there are still big differences in their products and the ways they organize their firms and production systems, which could pose mutual threats.⁷ But these differences fall largely outside the purview of standard models.
4. It cannot be known whether all forms of defensive technological change among advanced economies augment total factor productivity and hence whether they fit within standard economic thinking.⁸ My guess is that they do not, but instead represent a process of mutual imitation across international borders, or what I will call “globalization by ideas.”

An Example of Globalization by Ideas In order to see what this theoretical explanation means, consider the evolution of the American car industry in the context of rising U.S.-Japan trade from the mid-1970s until the present. In the

7. There is a big literature on “comparative advanced capitalisms.” For an interesting popularization, see Albert 1993.

8. But standard models do envisage the possibility that international migration of “technological capital” would affect relative prices; Richardson 1995: 44.

United States, car companies underwent a productivity slowdown and profitability crunch in the early 1970s and were strongly shaken by Japanese imports. The American story is thus in a sense one of import competition, not from a cheap or unregulated labor country, but from a high-wage country where new productivity techniques and resulting prices and product qualities outcompeted the American producers. The managerial elites in the United States initially did not understand the import threat in manufacturing and simply let their markets be flooded with better products from Japan in the late 1970s and early 1980s (Tolliday and Zeitlin 1992; Abernathy, Clark, and Kantrow 1992). Later on, they did try to stem the tide with voluntary import restrictions and misguided attempts at restructuring their firms, but the damage was already done. The American producers finally responded to the new techniques in the late 1980s. There was no longer any possibility of sticking with the old strategies for the American two-thirds of the domestic market, because consumer loyalties were being eroded.

A very interesting geographical process took place behind this sequence of events: the large-scale, long-distance diffusion and mastery of a set of labor-saving and productivity-heightening production techniques that align American quality, productivity, and price norms with those of their Japanese competitors (Abernathy, Clark, and Kantrow 1992). This phenomenon falls well into the standard trade theory notion that trade is a vehicle of knowledge diffusion (Eaton and Kortum 1995; Bernstein and Mohnen 1994; Park 1995).

This experience may not be the most common. The more typical case may be that of Western Europe, which is made up of countries that are on average three to four times more open to foreign trade than the United States. In most of the Western European car markets, Japanese competition has not had a strong direct influence. Today in France, for example, Japanese car imports are less than 3 percent of the total; and virtually all other imports of cars come from other Western European countries that have similar labor laws and wage levels often higher than those of France. Yet the Japanization of techniques, product qualities, and price levels has assuredly taken place in Western Europe. It would be hard to apply here the explanation advanced above for the U.S.-Japan case—there isn't (yet) enough actual trade to claim that Japanization in Europe is a way to reclaim lost market shares. Rather, it is clearly a defensive, anticipatory strategy.

Moreover, this implementation of techniques that carry a powerful labor-saving bias is taking place in countries with strong labor laws and labor movements, and where until recently there were substantial formal or informal restric-

tions on non-European trade. In light of these circumstances, why shouldn't firms and workers in these countries be able to shelter themselves from such techniques, with their extreme labor-saving and flexibility bias, and thereby preserve labor demand, maintain wage shares, and resist the inequality that would otherwise ensue? In other words, why do these countries' distinctive institutional structures not keep their staffing, wage, and skill levels in a different configuration from that typically brought about by diffusion of the new technologies? What alternative form of globalization is it that has permitted this worldwide diffusion of labor-saving technologies?⁹

In the European cases, workers did indeed resist these techniques and even management did not show much interest in them in the beginning (Tolliday and Zeitlin 1992). Some national governments also resisted them because of the unemployment costs they would incur under the existing labor law regimes there. And yet, in retrospect, their march forward seems to have been inexorable. In France, for example, both Peugeot and Renault dramatically increased the quality of their cars, their design, their reliability, the range of models; they adapted models more quickly to market changes by the late 1980s, and real prices declined when adjusted for quality. This story is not unusual; the real prices for many goods and services—sometimes in absolute terms as well as in quality-adjusted terms—have dropped over the past fifteen years in the United States and Western Europe (Lebergott 1993, 1996; Schor 1999; Gordon 1990). This is merely a way of stating the concrete consequences of what is assumed in every theory of expanding world trade and specialization: by reducing the internal prices of consumption goods relative to investment goods, expenditures are shifted toward consumption.

In this view, moreover, the vehicle of the current globalization process can be thought of as being quite different from what occurred earlier in the twentieth century. Instead of concentrating on direct, or trade-based, globalization, economists should also take into account a non-trade-based process of globalization that develops via flows of knowledge and ideas. Even in markets characterized by

9. While the accounts of some historians suggest that labor saving is the principal motivation of employers who adopted these technologies in the early days, many other accounts focus on the need to change practices of labor utilization in order to get the other benefits of the new techniques; in these studies, labor saving emerges as something like a secondary and opportunistic benefit of adoption, not its sole or primary purpose as is often assumed (Abernathy, Clark, and Kantrow 1992; Utterback 1996). There is a lively debate over this. Some excellent analyses claim that managers are aware of, and are explicitly promoting, a declining technology-skill complementarity. See, for example, Lazonick and O'Sullivan 1997.

relatively modest shares of foreign goods—and this is frequently the case—it may be these global idea flows that call the shots. This suggests the advisability of a reorientation in how we think about the economics of globalization this time around.¹⁰

Consumption and Consumerism

The account given above is about strategies that take place within a large-scale collective action process—the conventional interaction between producers and consumers. On the producer side, there is learning to engage in defensive technological innovation as a way to head off potential loss of market share.¹¹ On the consumer side, there is a diffusion of calculating, internationally informed, and consciously comparative consumer behavior. This space- and time-sensitive interaction between production norms and consumption norms has not been well studied, to my knowledge. I believe that it holds the key to many dimensions of what might be called industrial hypermodernity—the ever more frantic race for product quality, variety, rapidity of adjustment, and cheapness—at the end of the twentieth century.

In markets, supply and demand transform each other through a sort of back-and-forth movement between the two, a kind of dance between the producer and the consumer.¹² Given that the current rapid rise in trade began around 1973, one can surmise that in cases such as the automobile industry examined above, consumers began to be heavily exposed to the prices and qualities of imported goods in the 1980s. This exposure was accelerated by increased global advertising. Domestic producers responded by imitating the prices and qualities of foreign goods that were taking away, or were poised to take away, their market shares. In this way, over the 1980s and early 1990s, consumer expectations about the relationship between price and quality of many products changed. Though consumers were unaware of it, their expectations now depended on methods of production using the new labor-saving and quality-improving techniques. A new demand structure, rooted in these consumer expectations, has

10. I have written more extensively about this issue in Storper 1999; Storper and Chen 1999.

11. Expressed more technically, there is considerable evidence that European producers are adjusting to globalization not only by becoming more specialized in what economists call “intrafirm trade” but that they are also making similar products and competing head to head, and that this is an important percentage of trade among the advanced countries (Storper and Chen 1999).

12. I translate this “back-and-forth movement” from Léon Walras’s use of the French term *tâtonnement*—something like a back-and-forth method of finding one’s way and adjusting to signals.

now made it much more difficult—if not impossible—for any country to use local institutional structures, such as labor market structure or protectionism, to enforce local technical norms that might deviate from world productivity standards for a given product.

This demand structure provides a starting point for understanding the diffusion of such production techniques, in that firms in countries with strong labor laws and institutions may not initially have intended to go head-to-head with those strong social forces. Instead, they typically found themselves unable to adapt to changing market conditions in the 1970s and early 1980s. The story unfolded in different ways in different places, but three elements may be identified as consistent factors: (1) the commitment of producers to the new techniques in relation to the labor market rules and institutions as referred to above; (2) the degree to which producers supported open markets; and (3) consumer society's impact in the form of consumption norms and conventions.

In contrast with the United States, in most of the rest of the developed world, the identity of “consumer” is a very recent one—if by that word is understood a social category openly and favorably acknowledged by firms, politicians, the media, and indeed by individuals describing themselves (Cross 1993; Lynn 1971; Lury 1996; Slater 1997). Of course, it is difficult to say exactly how and why this shift from “producerist” identities to “consumerist” identities has happened in the Western European countries. But it might be proposed that in the early days of the rapid growth of trade (the late 1970s through the mid-1980s), the selective and limited importation of goods served as a vehicle of diffusion of new standards of prices and quality that subsequently became assimilated as expectations by consumers. Increasingly, firms appeal directly to consumers in order to bring about technological changes that sometimes have damaging effects on the incomes of those very same people.

The Strengthening of Consumerism and Consumer Identities Of course, one could argue that consumerism is nothing new, especially in the United States. But a strong case can be made that consumerism has become markedly more pervasive in the United States since the 1970s, when the current trade expansion began, and that it became culturally dominant for the first time in Western Europe during this period. Psychological and economic as well as institutional and organizational factors can all point to this conclusion.

Consumerism has long existed as an institutional field, in the sense of a set of routinized social practices anchored in structured relationships between organizations (Powell and DiMaggio 1992). There is abundant reason to believe that

this field has been expanding in many areas of the world, including not only the developed countries, but many developing areas as well. Evidence of this includes the following: the explicit education of consumers by firms about the ways that they improve their goods and services; the massive increase in brand-name advertising as a percentage of overall firm expenditures; the rapid rise in the number of consumer associations; and the nearly tenfold increase in the number of new products introduced yearly in the United States between the 1970s and the mid-1990s (Madrack 1996; Schor 1999). Mention must also be made of the shopping experience itself, long exoticized for the upper classes and now presented as “experiential” for wide swaths of middle-class consumption as well—while at the same time reaching peaks of pure price- and quantity-oriented masification, such as the spread of discounting (Miller 1998).

What is the result of these institutional practices in terms of the behavior of people and the ways in which they define their interests and identify themselves in the world? There is little hard or quantifiable data regarding these complex intangibles. In my view, it would be a mistake to hold that consumption is simply “pushed” on people, that they are duped into it by powerful institutional forces such as advertising. A more plausible interpretation is that consumerism, however it begins, ultimately sustains itself by becoming an intimate part of the action frameworks of individuals, how they see themselves and define their interests, how they approach the world, and how they present themselves to others (see Goffman 1956; Douglas and Isherwood 1996; Rauscher 1993; Slater 1997, Chao and Schor 1994; Lury 1996). Such a model of the institutional field of consumerism would consist of a set of conventions that link and coordinate the behaviors of producers and consumers.

The notion that people might become hooked on consuming has a firm basis in psychology. There is now a considerable body of research in social psychology on the fundamental attractions of arousal (versus boredom), pleasure (versus comfort), and comfort (versus discomfort), and the human strategies for getting from less desirable to more desirable states. Key among these are material means, and in today’s world, material means are usually consumed rather than self-produced (see Scitovsky 1976, chaps. 2–4). Pleasure is apt to be induced by seduction—*l’appétit vient en mangeant*—and this is the psychological target for the institutional field mentioned above. Humans also have a tendency to become addicted to certain forms of pleasure or arousal. One of the chief ways this addiction can be maintained is through novelty, since pleasure diminishes rapidly due to habituation, and arousal peaks, declines, and must be reignited again (Scitovsky 1976).

Psychology can provide a suggestive departure for an inquiry into the desire to consume. But what are the dynamics of the interests that come into play when consumers meet producers? The classical economic approaches to this question stressed a presumed relationship between rising affluence and consumerism, often linked to the idea that affluence frees up time. Consumption thus becomes a leisure activity that is strongly linked to status differentiation (Veblen [1899] 1976; Tawney 1952; Galbraith 1958). More recently, however, a central premise of these analyses has been questioned, for it is now widely recognized that increasing affluence does not generate increases in free time. Indeed, the prevailing trend seems to be in the opposite direction (Hochschild 1997; Schor 1991; Hirschman 1973; Cross 1993).

In light of this discrepancy, Juliet Schor (1999) suggests that the fundamental assumptions of mainstream economics with respect to consumption are fundamentally wrong. Economics has long assumed that what we consume is necessarily an expression of what we want—that it is the objective expression of our subjective preferences. The two assumptions behind this are “worker sovereignty” and “consumer sovereignty.” The former term refers to the idea that workers actually choose how much to work and how much to earn, and competition insures that what they want will be available in the labor market. The latter refers to the premise that consumers choose the basket of goods and services that maximize their satisfaction, and competition insures that what they want will be available for sale. If these twin sovereignties hold, then consumers consume to the point of optimal satisfaction. But if, for example, workers cannot in reality trade off consumption for leisure, the reasoning falls apart. And considerable empirical evidence is available to discredit this notion of worker choice (Kahneman, Slovic, and Tversky 1979).

Such studies enable Schor to argue that because workers cannot choose their hours of work, the current trade-off between leisure, income, and spending is not free and optimal. Rather, since workers cannot increase their leisure time, they consume with the income they do earn. The literature on the “time bind” supports the idea that in an affluent society, we consume because it is our only realistic choice. As we spend our higher incomes, habit formation takes over and leads to a sort of cumulative effect of consumption (endogenous preference adjustment). These are the structural reasons why consumerism and consumer society have found such fertile ground in contemporary developed economies. When combined with the psychological motivations and institutional forces noted above, the case appears quite powerful.

The Lived Effects of Income Inequality I: Consumption and Consumer Surplus

Economics has a concept, usually deployed as an efficiency measure, that can help explain one of the lived dimensions of changes in absolute and relative income levels. *Consumer surplus* is the term for the gains consumers receive when lower production costs are passed on in the form of cheaper goods. If consumer surplus is growing, then, at a given income level, it is possible for the absolute material standard of living to increase.

Thus, in order to understand the lived effects of income distribution changes, the evolution of the absolute material standards of living of those affected must be considered. The evidence in this regard gives a somewhat different picture from that provided by income distribution figures alone. In Western Europe, North America, and Japan, real material standards of living have continued to rise for a very high percentage of the population, perhaps 90 percent or more, through the last 25 years (Lebergott 1993, 1996). This is all the more remarkable because productivity growth for these economies in the same period has averaged only 2 percent per year, in contrast with the postwar average of about 5 percent per year up to 1970. Virtually every quality-of-life indicator corresponds to this view: housing size and quality; the use of durable and nondurable consumer goods; travel and leisure; health; and even schooling (Lebergott 1993; Burtless 1996). As discussed above, the same phenomenon that has caused income stagnation for much of the labor force—dramatic labor-saving technological change resulting in a drop in relative demand for the semiskilled—has also cheapened and improved most consumer goods and services. This is reflected in real consumer prices (Gordon 1990) and is experienced as a dramatic increase in consumer surplus. Even for that part of the population whose wages are most negatively affected by globalization—the unskilled—it is estimated that in the United States, a 3 percent direct decline in real wages has been compensated for by a 3 percent consumer surplus (Cline 1997).

There are, however, more disquieting signs for a hard-core group of the poor that was never eliminated in the United States but that almost disappeared in Western Europe in the early 1970s.¹³ It appears that the production of public goods (roads, schools, and so forth) has declined in some countries due to poli-

13. Some Western European countries reduced their poverty rates to less than 2 percent at that time, but the rates have since tended to rise. Poverty reduction proceeded in United States with rapidity from 1955 until 1975. Since then, contrary to the popular impression, the rate has risen only by 1.5 percent. What this indicates is the presence in both Europe and the United States of a group that has remained mired in persistent poverty.

cies that reduce the transfer of income from private to public hands, and this has undoubtedly had a greater impact on the poor than on the rich. Increases are also indicated in certain negative externalities disproportionately suffered by the poor (such as pollution, violence). Still, the overall picture is not one of decline in absolute material standards of living, but of increases for the vast majority. This forces us to think very differently about how the effects of income distribution changes are actually felt by the majority.

This raises a collective action problem similar to the one referred to in the previous section. There, I hypothesized that consumer interests and identities have played an increasing role in many countries in permitting producers to implement productivity strategies that run up against powerful organized interests—unions in particular, or wage workers in general. One of the reasons why there may have been less protest over the emerging income distribution than might have been expected from a straight reading of the income figures is this: many of those who are losing in relative—and even in absolute—terms as workers, are still gaining in absolute, material terms as consumers.

The Lived Effects of Income Inequality II: Positionality Still, one might ask, if consumer surplus is growing, sustaining higher material consumption, why do so many people feel dissatisfied? Why is there a widespread impression of decline or inadequate progress in the standard of living in so many countries? An answer to these questions might include three elements.

Many of our expectations about standards of living are derived from observation of the generation that precedes us. In the postwar period, up until the early 1970s, there was a very rapid and sustained increase in the standard of living in the industrialized world. Since then, the much lower rate of productivity growth, from about 5 percent per year to half of that, represents an enormous overall loss in output—whether experienced as income or consumer surplus—from what would have been obtained had overall growth continued at the previous rate (Madrack 1996).

As a second reason for widespread dissatisfaction, it can be proposed that there is a big difference between the overall effects of technological and organizational change on income in the economy and their experiential effects on given individuals. Behind the fact that absolute average incomes for low- and semi-skilled people have declined or stagnated is a great deal of individual turbulence. Many individuals have seen what they considered to be secure jobs, with certain income expectations, disappear, and they have found themselves unemployed or

reclassified downward in terms of skill and income (Mishel, Bernstein, and Schmitt 1998). This is an important corrective to the use of averages in the standard analyses.

The third reason is less apparent and has to do with the *shape* of consumption. The malaise of the middle classes goes beyond the experience of individuals who have been the victims of labor market displacement. It affects many members of the middle class who have actually benefited from the consumer surpluses alluded to above without incurring the negative wage effects. And to these may even be added the people at the top, who are benefiting from increases in both income and consumer surplus. Yet empirical research on subjective well-being in relation to real income has long confirmed that once basic needs are met, satisfaction fails to increase. Robert Frank (1999: 72), quoting results from the National Opinion Research Center, shows that real per capita GDP in the United States rose by 37 percent between 1972 and 1991, but the percentage of respondents reporting themselves to be “very happy” never exceeded 40 percent—its 1973 level. Ruut Veenhoven (1993), in a study of Japan from 1961 to 1987, shows that although per capita income grew fourfold, the average level of reported happiness stayed flat (see also Kahneman 1998). Indeed, this is an old theme in the critique of consumer society (Tawney 1952; Galbraith 1958; Sen 1987), although it is now easier to confirm and to theorize (Easterlin 1995; Duncan 1975–76).

But surely the people at the top are happier as they consume away? The appearance of greater numbers of high-income earners has altered consumption patterns. At the very top, the winners in winner-take-all markets constitute, in terms of their purchasing power and habits, something like a new aristocracy (Frank 1999). Below this top 3 percent are another 17 percent or so whose purchasing power now permits them to acquire very large quantities of fine goods and services (Frank 1999; Frank and Cook 1995; Schor 1999). One explanation which has been offered for the stagnation in subjective well-being comes from the social psychologists’ notion of a fixed hierarchy of needs (Maslow 1954): a ladder which people move up as they get richer in absolute terms. The implication is that richer people will be more satisfied, and everyone else will be less satisfied. But empirical research does not strongly bear this out. Frank (1999: 114) shows that the relationship between well-being and income is quite noisy; there is a great deal of individual variation at all income levels. Factors other than income are important, many of them nonmaterial.

A more powerful explanation for the stagnation of satisfaction, on average and at the top, comes from the notion of *positionality* in economics. A portion of

the satisfaction we get from certain kinds of goods or services has been shown to depend on their position in a hierarchy of quality and status, and not on their absolute qualities. There are two ways in which many consumer goods fit this pattern. First, they have status attributes and not simply use-values. The enjoyment that comes from them has to do in part with how they compare to what we know is available. As noted above, one of the principal psychological dimensions of consumerism (and some of the other pleasures in life) is that the pleasure effect wears off with familiarity, and change heightens it again. This is true also of the pleasures of status-seeking: jockeying for position eventually yields to familiarity, and the position itself is objectively changed when others catch up. Both lead to reduction of pleasure and renewal of the search for status. Psychological research suggests that status-seeking may have addictive properties (discussed in Hunt 1996).

In addition, the absolute qualities of certain goods change with position.¹⁴ This is the case for some of the most important collective goods, such as schools or transportation. If everyone goes to public schools, they have a certain range of qualities. If richer or better-prepared children go to private schools, then not only do public schools change in relative status, but their absolute qualities may be changed as a result of the withdrawal of privileged students to private schools.

All of these are examples of a condition that violates one of the fundamental precepts of the way the pursuit of satisfaction is viewed in standard economics. This is that each person's preferences are independent, severable expressions of their wants, which they can combine and transform optimally. The present analysis suggests that preferences are interdependent (Tomes 1986). Considerations of status-seeking behavior (Duesenberry 1949; Bearden and Etzel 1982; Chao and Schor 1994; Frank 1999, 1985; Rauscher 1993) and of the real relationship of absolute to relative quality (Alessie and Kapteyn 1991; Easterlin 1995) can both be deployed in support of this more recent view.

Thus, along with the considerable decreases in price and increases in quality offered by producers as a result of the new production paradigms and their global price norms, there has also been an increase in positionality. The dissatisfaction

14. A classical version of this comes from locational or land-use economics, where Ricardian land rent is the result of a limited number of spots at a given location and at a given proximity to other locations. While there is some possibility of expansion, through intensification of land use (higher buildings) or better transportation, the potential is not infinite and the user-attributes of the land change with expanding supply, often remaining inferior to the best locations, which are already used up and cannot be expanded.

of the middle classes has to do in part with this flip side of globalization—their stagnating money incomes and positionality in consumption are not entirely offset by the cheapening of many goods. They are consuming more but still losing out in critical ways. These are not optical illusions or the psychological hang-ups of spoiled people from wealthy countries. They are objective, real effects. It follows, of course, that the people at the bottom of the income distribution suffer even more egregiously from the new positional inequality in consumption.

Public Goods and Positionality: The Prisoner's Dilemma One of the biggest differences between most Western European economies and the United States is the percentage of total economic output that goes to public expenditure. There is a variation of almost 20 percent between the United States (around 30 percent) and most of the high-public-expenditure Continental countries (around 50 percent). Considering that military expenditures account for a relatively high percentage of U.S. public expenditure and that much of these funds end as private sector procurement expenses, there are big differences in the quantities of public goods provided to the citizens of these nations. Public goods tend to be less positional than private goods, although they are certainly not immune from positionality effects (this depends largely on how they are produced and distributed). But public goods are more frequently nonstatus goods than private goods; although many desirable private goods (such as savings, some forms of education, hobbies, and conviviality) do not have status qualities (Frank 1999). Public goods are often distributed so as to equalize access to certain kinds of necessities, and thus some of the positionality effects of status consumption should be offset.

Another way in which most Western European economies (as well as Japan) differ from the United States is in the degree of wage dispersion. The multiple of average occupational wages in the highly remunerated occupations to the lower-paid ones is much higher in the United States than elsewhere (Crafts 1998).¹⁵ In Europe, the effect of winner-take-all labor markets has not been as prominent, in part because of the different sectoral specializations of European economies—less high-tech, for example. (The United Kingdom is something of an exception,

15. Although total income distribution is not hugely different in the United States, because in other countries inherited wealth or income on property compensate for more egalitarian wage structures. Moreover, the low wage-dispersion rates of some countries reflect a pattern in which the bottom income brackets are brought closer to the middle while average wages are left low relative to the U.S. average. This is the case for France, for example, where the minimum wage, much higher than the U.S. one, is 60 percent of average wages, and the average is in turn a lot lower than in the United States.

with the City of London and its corporate management stratum featuring wage structures that are closer to those of the United States than of continental Europe.) Positionality effects seem to be growing mildly in Western Europe as the occupational wage structure comes to be influenced more by international trends, aided by policy changes in many countries.

One of the most worrisome aspects of positionality, in the face of growing income inequality, is that it may tend to crowd out nonstatus goods in general and public goods in particular. If status consumption is insatiable, it will eat up much income that might otherwise go to nonstatus goods, even where absolute incomes are rising. This is the pattern at work in the seeming paradox of people getting richer and still wanting to pay lower taxes. The only way to slow down status consumption is collectively, with mechanisms that simultaneously limit what our status competitors are doing.

The classic example of this sort of scenario, in which rational individual choices lead to collective outcomes that most would not prefer, is known as the “prisoner’s dilemma.” Two accused prisoners in different cells agree to confess when promised a lower sentence in return for revealing their partner’s crime. Both will go free if neither one says anything, whereas if either one confesses in order to obtain a lower sentence, they will both remain imprisoned. In spite of abundant private wealth in the United States, it is very difficult to convince even members of the increasingly prosperous upper middle class to reallocate more of their income to public goods, because most of them do not feel confident that others will do the same. In Europe, with lower absolute growth, more modest average incomes, and less inequality, it is easier to do so—for the time being.

In sum, the consumption experience at this fin de siècle reflects a tug-of-war between a number of forces. The lower price of many goods and services creates consumer surplus, but there are in addition national forces—customs, education (supply effects), and regulations—that powerfully shape the ways in which wage inequality due to globalization and technological change actually affects individual experience. These include the degree and shape of positionality in consumption, as well as the split between private and collective consumption.

Homogenization and Diversity Contradictory claims are frequently made about the nature of contemporary material culture. A commonly heard complaint is that there are so many options for material purchases, services, and cultural events that material and cultural life has become excessively fragmented. Others celebrate this apparently dizzying variety of possibilities (Miller 1998; Lury 1996). Both advocates and detractors generally recognize that contemporary cap-

italism has greatly increased its capacity to support a diversified material culture with much greater variety than ever before.

Some examples: Many more consumer products are introduced each year today than in the 1970s—perhaps six to ten times more (Frank and Weiland 1997). The rate of product changeover in many fashion and seasonal industries is now so rapid that it is often said that the fashion business has gone from four to nine seasons per year. In many markets, there are more versions of competing products that meet a given type of function (cars of similar horsepower and size, for instance) than ever before. Even the number of specialized culture festivals in the United States has risen more than tenfold since the 1970s. Much of the management and industrial economics literature is consistent with this view of things: Managers are concerned to cope with increased risks of market shifts, and industrial economics has become preoccupied with product and process innovation and continuous “learning” (Porter 1990; Lundvall 1996).

Just as frequently, however, we hear lamentations about the loss of diversity—about a world that seems more and more homogeneous—that echo the long-standing postwar concern with mass consumer culture (Scitovsky 1976). For the purposes of the present analysis of globalization, there appear to be two relevant dimensions to this phenomenon, which are quite often confused with each other.

The first has to do with the geographical rescaling and integration of consumer capitalism. Throughout the advanced economies, and in the biggest cities of the rest of the world, there has been a considerable diffusion of certain similar dimensions of mass culture: fast food, films, youth fashion, and shopping centers come immediately to mind. Whether we go to a jazz club in Greenwich Village or Paris, to a gay disco in San Francisco or London, or to a big rock concert or standard symphony-hall high-culture event anywhere, the venues resemble each other; in the latter cases, they might not only present the same acts, they are often organized by the same people. To be sure, beyond such internationalized aspects of consumerism, great local differences remain; but there is a definite convergence in certain kinds of consumerism and corresponding ways of life for certain social classes. This is even true of vacationing, which has traditionally been the activity by which we pursue the different or exotic: the average beach resort in Mexico looks a lot like the average beach resort in Tunisia or the Costa Brava, with its chains of hotels, restaurants, shops, and nightclubs (Urry 1995).

Many smaller U.S. cities now typically feature a variety of ethnic and specialty restaurants, touring theater companies, and even art films. These places have become at once more internally diversified and more like their metropolitan counterparts. The loss of “authentic” local culture in these places is a constant

lament. But on the other hand, for the residents of such places—or of Paris, Columbus, or Belo Horizonte, for that matter—there has been an undeniable increase in the variety of material, service, and cultural outputs. In short, the perceived loss of diversity would appear to be attributable to a certain rescaling of territories: from a world of more internally homogeneous localities where diversity was to be found by traveling between places with significantly different material cultures to a world where one travels between more similar places but finds increasing variety within them.

The prevailing condition is not marked just by variety, however; there are forces that pull in the other direction. For example, advances in communications and information processing have made it possible to manage large service-delivery organizations with great diversity of products and frequent changeovers. Such scope used to be reserved to the most gigantic companies, and even they used to be limited to relatively stable markets, but this is no longer the case.

To cite an upper-middle-class example: In U.S. cities, it is now possible to find many cafés serving specialty coffees, often many kinds in the same café. But at the same time, we find the same chain—Starbucks—in thousands of locations across the country, often every few blocks in the same city. In California, the joke today is that in the gentrified urban neighborhoods that are supposed to feature the most diversified specialty consumption, the most profitable specialists have simply crowded everything else out, resulting in a familiar cluster of corporate logos to be repeated every few blocks: Starbucks–Banana Republic–Noah’s Bagels–Gap–Barnes & Noble. This is simply massification with a different, more small-scale look. The material context of consumption—the places we do it—gives us an impression of sameness, even as we are confronted with a plethora of product choices. And lest it be thought that this is only a characteristic of upper-income areas, it might also be mentioned that chain stores have been taking over food marketing in heavily Latino East Los Angeles, where the big competition is between the Mexican chain *Gigante* and local chains started by ethnic entrepreneurs, to the detriment of independent, locally owned shops (Rosenberg 1999).

It is true that straightforward economies of scale in managing organizations, which can now extend and replicate themselves over wider territories, are part of the story. In other words, to be huge, Wal-Mart is only one, and perhaps not the most important, model today. Hugeness can come through numerous widely scattered outlets rather than a smaller number of huge outlets. This is the point at which marketing and management can usually wrap up their happy story about how the consumer can now be served a huge variety of high-quality and specialized products with all the benefits of both scale and proximity to the consumer.

But there is another force at work in certain markets that encourages a loss of diversity *tout court*. This is a concept known to economists as *Hotelling's duopoly*. It concerns the parable of a beach, four kilometers long, with two ice cream vendors. If the vendors were to choose their locations with an eye to providing optimal service to the sunbathers spread equally along the four kilometers, they would take up position at kilometers 1 and 3. No bather would be more than a kilometer away from ice cream, and only a small number, positioned right at kilometer 2, would ever shift loyalties. But that isn't what happens. When the two vendors compete, they shift positions to cut into each other's markets. After several rounds of moving toward kilometer 2 in order to grab some of the other's customers, they both end up clustered around kilometer 2, so they each get half the customers for the entire length of the beach. The sunbathers at either end of the strip lose out, because they have to go much further to get ice cream. The result is bad for everybody, but it's the outcome of rational competitive behavior.

This is a locational metaphor for a broader economic phenomenon. In certain product markets, a small number of producers will act in a duopolistic way, effectively reducing the range of outputs to cluster around the middle of the demand structure. Major Hollywood film studios, for example, have figured out that they can make a lot more money by producing middle-taste or formula films. Filmgoers may see films that feature different stars and slight variations on a common theme, but as far as the decision makers in the industry are concerned, they could be rolling out installments in a series. Moreover, the price of making and distributing a successful formula film has risen geometrically, reducing the amount of studio capital available for other kinds of films. The result is that producers aim their products increasingly toward the middle of the market.

This is often incorrectly described as oligopolistic market control, but the markets are in fact highly competitive.¹⁶ Such convergence, characteristic of many contemporary markets, helps to explain the sense on the part of consumers that many products—most notably cultural products such as films and music, but also even certain kinds of manufactured goods—lack variety. A fantastic number of options, colors, and certain kinds of functional differences may be available, but middle-of-the-road marketing criteria nevertheless dominate the selection.

There are exceptions, one might protest. There is a proliferation of independent films; you can find specialty manufactured products in specialty stores if you know where to look. For the latter, however, price premiums must be paid (Scitovsky 1976); for the former, almost insuperable barriers exist to the high-

16. The term of art is *contestable* markets, a form of competitive markets with a small number of producers (Baumol, Panzar, and Willig 1982).

level financing prerequisite for the technical sophistication that has become the norm for the mass market. U.S. journalism, both print and broadcast, displays the characteristics of Hotelling dynamics, with fierce competition focusing on the coverage of material whose newsworthiness is defined by a seldom contested middlebrow attitude. Evidently, there is a very complex real mixture of variety-enhancing and variety-reducing changes occurring in the markets of even the richest economies. Our apparently contradictory impressions may very well be entirely accurate. The point is that these contradictory effects have to do with globalization in two ways: the rescaling of markets, and Hotelling dynamics within enlarged and deepened markets.

By Way of Conclusion

The argument here has ranged widely across issues often dealt with in separate academic fields, so it may be helpful to draw the threads together. I began by exploring a paradox at the heart of economic globalization: Why have “producerist” countries (as represented by the social democracies of Western Europe) essentially restructured their industries along the same lines as the “nonlaborist” Americans, incorporating labor-saving and inequality-promoting changes in production techniques? I investigated how consumer society has been mobilized in favor of such changes, thereby reinforcing the ability of firms to implement defensive technological changes. In this way, I hope to have shown the relationship between globalization and increasing income inequality to be broader than as represented in many economic analyses.

An inquiry into why increasing inequality has stimulated only minor social protest identified effects on material consumption and real standards of living that offset some of the income lost by certain groups due to contemporary economic restructuring. The contemporary citizen at times acts as a consumer, at other times as a producer. His or her behaviors seem inconsistent if evaluated only in terms of standard class or income (producerist) criteria.

Yet overall satisfaction levels in the advanced economies have not increased with growing material wealth. My third point was therefore that even as consumerism has been widened and deepened and its logic extended further down the social hierarchy, consumption practices have become increasingly shaped by a status hierarchy. This yields the impression that living standards are declining even as wealth increases in real terms and creates a stagnation in satisfaction levels. Fourth, while globalization and technological change make it possible for industrialized economies to produce and market a hugely increased variety of

goods, they also push certain industries to concentrate on middle-of-the-road outputs; these two tendencies create the simultaneous and contrasting impressions of greater variety and greater homogeneity. Finally, the differences between public and private consumption, which vary from place to place, give different local flavors to these global trends.

Many complex issues remain to be resolved. Most importantly, in discussions of globalization and inequality and of the contemporary experience, economists need to avoid simplistic depictions of social behavior. Economic actors are not only wage earners, but also consumers, not to mention citizens (Inkeles 1983). Though the consumer society has been long in the making, I believe that it has entered a new and qualitatively different phase from the period prior to 1980. Within this deeper and wider consumer society, producer identities appear to be crumbling, especially in Western Europe where they have traditionally been stronger than in the United States. Scholars have yet to consider the implications of this transformation in identity for the economic effects of globalization and the feelings that people have about them, and hence the complex political and social processes they may set into motion.

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