

Tuesday, October 4, 2005

Preparing for class discussion on:

Location and Distribution: What impacts have recent trends in off-shoring white-collar service jobs had on regional economies?

Some of the students (and professors) in our class are planners, and as such we are concerned with regional economic development. So far, we have asked about the extent of offshoring, both on the US (and other developed) economies and on the economies of host countries. The questions we will consider next week has to do with the factors that contribute to industries' decision to locate jobs overseas and how these decisions have changed over the last thirty years, particularly due to advancements in IT and reductions in telecommunication costs.

In the 1970s, some economists observed a shift in location choices by industry attributable to a reduction in transportation costs. Earlier economists, such as David Ricardo noted that trade between regions was dependent upon comparative advantage; each region producing specific commodities in which the relative cost of producing the commodities was cheaper. Poorer countries were active in resource extraction (mining for example) while wealthier regions industrialized (manufacturing). There was inequality in this arrangement. Economists in the 1970's witnessed a "maturing" of industry such that the manufacturing process became "footloose" in certain aspects of production. This meant that certain segments of the production cycle could be exported to lower-cost regions. Other segments stayed in the higher cost regions. This became known as the New International Division of Labor (NIDL). Economists such as Doreen Massey and Foibel were concerned that the NIDL would further underdevelop the poorer regions of the planet.

More recently, economists witnessed another phenomenon. Successful regions, including Northern Italy, Silicon Valley and 128 Corridor in Boston appeared to benefit from a "stickiness" of industry. Whether focusing on high fashion or high tech, these regions benefited substantially from a high degree of social capital. Just in time production methods, flex specialization and a tight-knit relationship between producers and consumers seemed to suggest that the NIDL might be challenged by the gravity of regional sector specialization one more time. A traditional understanding of competitive advantage once again made sense. Regional economic development experts have since begun to promote clusters (dense web of relationships, institutions and suppliers, and a common pool of skilled labor.) If lower transportation costs and certain technological advances in the production process made the NIDL possible in the first place, what forces lead to a centripetal force, drawing the production process back to a centralized location?

Recent trends toward offshoring challenge the stickiness of clusters and agglomeration economies. Are the revolutionary advances in IT and concurrent reductions in the cost of communication over long-distances responsible for this shift? Is there a New New International Division of Labor (NNIDL)? If so, what are the distributional consequences of this phenomenon--on regions and on workers? The following readings will address the economic geography white collar offshoring to be discussed in class in greater detail. The subsequent readings offer some background to the discussion.

Levy, David. (2005) Offshoring in the New Global Political Economy. *Journal of Management Studies* 42:3 p685-693

**Off-shoring of services and deindustrialisation: Threat or opportunity –and for whom?
Frédéric Robert-Nicoud, University of Geneva and CEPR, April 20, 2005**

Robert-Nicoud, Frederic (2005) Off-shoring of Services and Deindustrialization: Threat or Opportunity-and for Whom?

Hot off the press:

Oct 4, 2005 Draft “The impacts of Service Offshoring on Nonmetro America: Thinking About the Future” by Kenney and Dossani (document attached or search on google, you will find it)

A short news article in *BusinessWeek* from March 22, 2004. “One Giant Global Labor Pool?”

Background:

Several readings will come in handy for this discussion. I recommend you familiarize yourselves with earlier writings on NIDL. Here are a few articles that I found useful. Certainly don't read them all unless you are as crazy about this stuff as I am:

Massey, Doreen. (1979). “In What Sense a Regional Problem?” *Regional Studies*, Vol. 13 pp233-243.

Norton and Rees (1979). “The Product Cycle and the Spatial Decentralization of American Manufacturing” *Regional Studies* Vol 13 pp141-151

Frobel, et al (1978). “The World Market for Labor and the World market for Industrial Sites” *Journal of Economic Issues* Vol XII No.4. pp 843-858

Mittelman, James (1995). “Rethinking the International Division of Labor in the Context of Globalization” *Third World Quarterly*, Vol 16, No 2.

To understand the re-emergence of agglomeration economies read:

Sable, Charles, F. (1989). Flexible Specialization and the Re-emergence of Regional Economies? in: Hirst, P. and Zeitlin J. *Reversing Industrial Decline*. London pp23-54.
UC Berk Main library: HD3616.G73.R4851 1998

To understand Clusters read

“Clusters and Competition” by Michael Porter

http://instruction.bus.wisc.edu/mcarpenter/inbox/EMBA/ClustersCompetition_chapter.pdf

.