



## U.S. Living Standards and Global Competition: Lessons from Abroad

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The world has changed in the last forty years, as goods, money, and workers flow across national boundaries in an increasingly competitive global marketplace. Global competition has reduced the prices Americans pay for computers, TVs and shoes. But in the era of globalization, U.S. workers have also faced stagnant wages and growing worries about the loss of health care benefits, retirement pensions – and even jobs.

Do Americans have to accept declining standards of living as the inevitable result of global competition? Quite a few politicians and corporate leaders imply that this is inevitable. In the name of “making our economy more globally competitive,” they urge employees to give back gains in wages and benefits. They call for lower taxes on business and the wealthy, along with sharp reductions in public spending on education, health care, and infrastructure.

But the experiences of other countries show that such pessimistic arguments are misguided. *Global competitiveness and rising living standards can go together.*

### Korea and Brazil as Success Stories

Two developing capitalist countries have managed to improve their people’s lives amidst the ups and downs of global economic competition. Korea is a small country in booming East Asia, and Brazil is a continental-sized nation in the less-developed part of Latin America. Neither is as wealthy or powerful as the United States, yet both have developed considerable industrial capacity. After experiencing rapid development, Brazil and Korea also found themselves threatened by competition from even poorer countries and forced to cope with financial upheavals. Financial meltdowns turned the 1980s into a lost decade for Brazil; and the 1997-98 East Asian financial crisis threatened to wipe out three decades of economic progress in Korea. But neither Korea nor Brazil ended up going into a tailspin. Living standards improved rather than declined. Wages have increased, health is better, and both countries are poised to see higher living standards for the next generation.

How did they do it? Private businesses are dominant and citizens are distrustful of state bureaucracies in both nations – just as in the United States. Yet Brazil and Korea both used public means to foster growth and social investments:

- Both Korea and Brazil strengthened their banking regulations to make it harder for global speculators to disrupt their economies.
- Korea used public policy and investment to build manufacturing capacity in the 1960s and 1970s. Faced with increasing global competition, the government continued to invest. A high-speed Internet network that surpasses that of the rich countries of Europe in terms of broadband “Fiber/LAN” and wireless connectivity is one result. Even more important, Korea invested in its people. From the 1980s on, reinvigorated unions and social movements pushed Korean politicians to spend more on health care and continue investments in education. Koreans are now among the most highly educated in the world, and they can expect to live as long, or longer, than people in richer places.
- With a lower standard of living and high levels of inequality, Brazil faced daunting challenges when industries developed in the 1960s and 1970s proved vulnerable to global competition. In response, Brazil’s public development bank invested massively to transform the industrial profile. During the 1980s, Brazil, like Korea, also became more democratic. After trade unions and social movements pushed politicians to pay more attention to the needs of ordinary citizens, health services improved and modest public investments raised the incomes of the poorest citizens. A healthier and more equal country, Brazil continues to grow and is less vulnerable to global pressures. During the crisis of 2008-09,

Brazil's economy proved more resilient than the U.S. economy.

## What Can America Learn?

Every nation has its own strengths and challenges, and no country can simply copy another's policies. Yet because Korea and Brazil differ in many ways, the common features of their strategies for handling globalization may be relevant to the challenges the United States now faces. What is more, some of the things that Korea and Brazil have recently done echo successful U.S. strategies of half a century ago. In the 1950s and early 1960s – sometimes dubbed the “golden age” of American capitalism – our democracy made massive investments in public schools and higher education and in the nation's physical infrastructure.

U.S. historical experiences, like those of contemporary Korea and Brazil, show that success in the global economy requires ever-renewed investments in people as well as in shared infrastructure. Public investments must play a key role to ensure universal affordable health care and excellent educational opportunities for all, as well as world-class physical and communications facilities. If all Americans contribute to such investments, we can enjoy a steadily improved quality of life, even while working in a more interconnected, competitive world.

Read more in Peter Evans, “The Capability Enhancing Developmental State: Concepts and National Trajectories,” presented at the UNRISD-KOICA Conference, Seoul, Korea, October 13, 2011.

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