

# Globalization and Labour Adjustment: A Primer

Marc Bacchetta (WTO) and Marion Jansen (ILO)

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The background of the slide is a solid blue color. In the lower half, there are several faint, concentric circular patterns that resemble ripples in water, centered at different points across the bottom.

# Why are adjustment questions important?

Understanding adjustment allows policy makers to design policies:

- that help companies and workers to take advantage of trade reform (e.g. increase export potential, adjust skill level)
- that help those suffering (temporary) losses due to trade reform
- that help economy to deal with external shocks

# Adjustment at different levels

What do we know about:

- Time it takes an economy to adjust to trade reform or trade shocks?
- Size of adjustment costs compared to size of gains from trade reform?
- Type and size of adjustment costs for workers?
- Type and size of adjustment costs for firms?

# Economy wide adjustment

- Not much empirical evidence about the length of the adjustment period (e.g. seven years in case of Canada-US-FTA)
- Widely diverging evidence about the costs of adjustment:
  - Studies from 1970s and 1990s: adjustment costs are 0.5-4 per cent of gains
  - Studies from 2000 onwards: adjustment costs can reach 60-100 per cent of gains from trade.
  - Recent ILO-Carnegie endowment study: costs of exposure to price shocks can significantly exceed gains from trade

# Adjustment costs for workers

- Costs related to finding and taking up a new job (travel costs, moving costs);
- Loss of income during the transition from the old job to the new one
- Costs related to obtaining the skills needed for the new job.

# Adjustment costs for workers

Displaced workers are likely to go through significant spells of unemployment (adjustment cost):

- Bale (1976): US – 31 weeks
- Richardson (1982): US, trade – 42 weeks
- Tansel (1998): Turkey, public sector restructuring – 6.6 to 9.1 months

# Adjustment costs for workers

No evidence that cause of displacement (e.g. trade) affects adjustment costs (Kletzer, 2001), in terms of:

- Wage losses
- Probability of finding new job (reemployment rate)
- Sector of re-employment

Question: is targeted trade-adjustment assistance justified?

# Adjustment costs for companies

- Get ready for external competition (e.g. sectors that were public in autarky (e.g. banking)).
- Invest in quality upgrading or product innovation.
- Investments to expand export activities.
- Costs to enter new markets.



# Government policies

- Social protection
- Education and training
- Infrastructure and utilities (“supply response”)
- Provide information on upcoming changes

# Government policies

Trade policies in the context of international agreements:

- Gradual liberalization/implementation periods
- Safeguard provisions to react ex post to unforeseen import surges
- Adjustment assistance (WTO compatible if “non-specific”)

# Adjustment to trade reform versus adjustment to trade shocks

- Openness increases exposure to external shocks, e.g.:
  - Commodity price shocks
  - Demand shocks related to economic crisis in partner countries
- External shocks may be temporary

# Government intervention when external shocks are **temporary** ???

- **No intervention ?**  
(adjustment costs but no gains ...)
- **Avoid adjustment ?**  
E.g.: Assist producers temporarily to do “business as usual”?
  - Target viability of companies?
  - Target employment levels?
  - Target consumption levels?
- **Adjustment with intervention ?**  
assist those negatively affected by adjustment? (displaced workers, new entrants into labour market?)