

Trade, FDI and the Bargaining Power of Workers



Devashish Mitra
Syracuse University

Impact of Trade on Labor–Demand Elasticity

- ▶ Through it, affects workers' bargaining power.
- ▶ Trade increases labor–demand elasticity (its absolute value)
 - substitution effect: $(1 - s)\sigma$
 - scale effect: $s\eta$

(Rodrik, 1997 and Slaughter, 2001)


The importance of the impact of trade on labor-demand elasticities

- Rodrik (1997)
 - Larger wage and employment volatility from given volatility in productivity.
 - What about productivity growth?
 - Larger incidence of non-wage labor costs on labor.
 - Reduction in the bargaining power of workers.

The above are related.



How does trade affect the bargaining power of workers?

- Trade makes it easier for firms and consumers to substitute the services of domestic workers with those of foreign workers (Rodrik, 1997).
 - Theoretical work by Mezzetti and Dinopoulos (*JIE*, 1991): The threat of offshoring or imports of inputs can yield significant increase in firms' profits.
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Indirect Evidence of the Impact of Trade on Bargaining Power (Through Labor–Demand Elasticities)

- Slaughter (*JIE*, 2001)
 - mixed evidence for the US using 4–digit industry–level data
- Krishna, Mitra and Chinoy (*JIE*, 2001)
 - no statistically significant effect of trade reforms, using plant level data for Turkey.
- Hasan, Mitra and Ramaswamy (*REStat*, 2007)
 - support for hypothesis, using 2 digit industry–level data at the state level
 - evidence stronger for states with more flexible labor markets (labor laws)
 - after liberalization, using our CRS specification, elasticity went up from 0.38 to 0.52 on average for all states and from 0.64 to 0.8 for the flexible states
- New study by Mine Senses (2008)
 - looks at the effect of outsourcing using US plant–level data
 - finds significant effects

Main Research Gap/Weakness: Very Little Work on Directly Testing the Impact of Trade on Bargaining Power

- A rough test: Hasan, Mitra and Ramaswamy (2007)
 - Wage bill as a share of output was 21% lower in the period post 1991.
 - Wage bill as a share of VA was 19% lower in the period post 1991.
 - This can either be viewed as a rough test, or a test of the relative importance or strength of the effect relative to other effects
 - Stolper–Samuelson Effects
 - Destruction of markups (Levinsohn (JIE, 1993), Harrison (JIE, 1994) and Krishna and Mitra (JDE, 1998))
- Work in progress by Ahsan & Mitra show that at the firm level the effects are somewhat different.

Research Gap: Relatively Little Work on More Formal Direct Tests of the Effect of Trade on Bargaining Power

- ▶ Brock and Dobbelaerre (2006):

$$W = W_a + [\beta / (1 - \beta)] * [R - W_N] / N \quad (A)$$

$$W_N / R = (1 - \beta) W_a N / R + \beta \quad (B)$$

- ▶ (1) Estimate (A) for each industry using firm level data. W_a is sector-average wage. What is W_a ?
- ▶ (2) Then regress these bargaining powers on trade related variables.
 - Dumont, Rayp and Wileme (*OEP*, 2006) find significant negative effect of trade and offshoring on bargaining power.
 - Similar effects found for Belgium by Brock and Dobbelaerre (*RWE/WWA*, 2006).
 - Arbache (2004) finds the opposite effect for Brazil using data for a few years before and after their trade liberalization of 1990s.

Research Gap: Very Little Work on Trade and Deunionization

- ▶ Trade destroys supernormal profits or rents.
 - Nothing to share or negotiate about through union bargaining
- ▶ Trade improves the threat point of employers.

Thus, unions are no longer viable.

Problem: Endogeneity of trade policy to unionization (not addressed by the following)


Evidence

- ▶ Baldwin (2003):
 - In the US, trade only marginally responsible for deunionization, relatively more responsible in the case of blue collar workers.
 - Technological change and other unknown factors more responsible.
- ▶ Dreher and Gaston (*Kyklos*, 2007):
 - Similar results for 17 OECD countries during 1980–99
 - “Economic globalization” does not have a statistically significant impact on union membership.

Future Research

- ▶ More studies for developing countries
 - Plant/Firm-level employment and wage data needed (matched employer-employee data ideal)
- ▶ Explore channels through which trade affects bargaining power.
 - More work on the impact of trade on de-unionization, especially for developing countries
 - Work on unionization using firm-level data
 - Study the interactions between firm characteristics and trade in the determination of unionization of workers.

Future Research, continued

- ▶ Explore whether results on the effects of trade on bargaining power are different with firm-level and industry-level data
 - Look at composition effects
 - Effects through entry and exit
 - Firm heterogeneity (interactions with firm productivity or size)
 - Worker heterogeneity
 - ▶ Interaction between labor-market institutions and trade policy
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Future Research, continued

- ▶ Implications of the effect of trade on bargaining power
 - For employment and unemployment (Dutt, Mitra and Ranjan, 2009 and Hasan, Mitra and Ranjan, 2009)
 - For wage inequality
 - For consumers (Can workers be better off as consumers?)
 - More empirical and theoretical work needed

Who are the researchers in this area?

- ▶ Rana Hasan, Devashish Mitra, Pravin Krishna, Matt Slaughter, Mine Senses, Ellen Brock, Noel Gaston, Sabien Dobbelaire, Nina Pavcnik.
 - ▶ Matched employer–employee datasets: Brazil (Muendler), France (Kramarz), Sweden (Fredrik Sjöholm), UK (Peter Wright & Richard Upward) etc
 - ▶ Industry–level data – easily available
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