

Globalization and Labour Markets

Outcomes of the Academic Workshop
reported by M.-A. Muendler

ILO/Worldbank/CESifo/EFIGE workshop, Geneva
Academic organizers: Sascha O. Becker and Marc Muendler
Policy forum organizer: Marion Jansen

23-24 June 2011

The workshop on globalization and labour market outcomes has brought together junior and senior researchers who offer important new insights that require rethinking of conventional wisdom.

- Novel theories emphasize differences across individual firms, workers and occupations—most action is within sectors
- Newly available micro data link firms to their individual workers, exporters to their foreign destinations and products, and multinational firms to their foreign affiliates; they permit the analysis of globalization with unprecedented precision
- Four objectives
 - take stock of the emerging insights from new data and new theory;
 - have these insights cross-pollinate as next steps in this emerging and exciting new research agenda evolve;
 - feed this current discourse into the policy debate; and
 - perhaps most ambitiously, attempt an interaction with the policy community.

- Clash of cultures between academic traditions in international trade and labour markets (be assured, it was still a civilized debate)
 - International trade considers general equilibrium of world as a whole and how sector-level reforms affect individual firms and workers; but this generality also impedes the isolation of trade from other aspects of economic change.
 - Labor economics typically studies isolated interventions in partial equilibrium to obtain definitive results; but standard of proof also limits the questions that are typically asked.
 - For young researchers, a risk to work at the fault line of this culture clash; but novel and important results promise large rewards; and several senior researchers are leading the same way.
- Three main themes run through the workshop: Jobs, Wages, and Offshoring.
- **Jobs:** creation and loss of jobs, moves of workers between employments, with spells of unemployment or informality, skill requirements of jobs for exporting;
- **Wages:** changes in the wage dispersion through trade, foreign investment and technology transfer, migration;
- **Offshoring** as a catch-all category for new forms of trade beyond exchange of final products, within multinational firms or across firms, across production stages along the value chain

1 Jobs

- Stylized Facts

- Most reallocation of jobs within sectors, not from one sector to another
 - Not to say that cross-sectoral reallocation is not present, as Margaret McMillan's keynote presentation earlier has shown, but worker flows within sectors typically considerably exceed those across sectors
 - Closely related to salient fact that huge diversity of firms within sectors: nonexporters, medium-sized transient exporters to a few destinations, large exporters to many destinations
 - Evidence from trade shocks that reallocation can be sluggish for many years. Gains from trade accrue every period for ever, but short-term adjustment costs
 - For the United States, an arguably highly flexible labour market, Shushanik Hakobyan of Middlebury College documents limited mobility especially for blue-collar workers but shows that anticipated effects of NAFTA make workers move early and can help those who initially stay behind
 - David Autor of MIT shows for China's insertion into global trade since about 2000 that 10 to 20 percent of decline in U.S. manufacturing employment due to import competition from China and adjustment costs in U.S. local labour markets are considerable: 1/3 to 2/3 of gains from China trade dissipate because of adjustment cost in labour market
 - Short-term can be long, as documented by Kerem Cosar of University of Chicago for Brazil's trade reform: half time of completing move of workers out of declining import-competing jobs into expanding export jobs 34 years
- What can be done?
 - Kerem Cosar of University of Chicago shows that unemployment benefits can help short-run adjustment because

they help individuals undertake the move to new activities despite an initial wage cut

- Kerem Cosar' research also is a warning that workers move slowly between activities not just because there are search costs, but largely because there is sector-specific human capital; possibility of policy interventions more limited
- Elhanan Helpman of Harvard University analyzes the long term and shows that unemployment benefits, or employer subsidies, raise efficiency of the economy in addition to mitigating distributional consequences
- In the long term, a country's labour-market reforms can change its comparative advantage: making the domestic labour market more flexible raises home welfare, but such reforms may reduce the trade partners' welfare
- Elhanan Helpman points out that this beggar-thy-neighbor effect from labour-market reform provides a rationale for coordination in labour-market policies across countries

2 Wages and Income Inequality

- Stylized Facts

- Wage inequality increased over past decades in numerous countries
- New trade theories can explain simultaneous increase in inequality in countries around world
- Conventional trade theory requires that, if wage inequality increases in some places, it must be falling in others. Not what we have witnessed
- Francis Kramarz of CREST Paris documents export wage premium that exporters pay, and higher premia at more successful exporters, and argues that these successful firms

share the extra profits from exporting with their workers broadly across all skill groups

- In an accompanying theory model, Francis Kramarz also points out that being an importer makes firms more competitive in product markets and more successful exporters, breaking the simple distinction between import competing and exporting activities; firm-level importing and exporting go together
- Carl Davidson and Susan Zhu of Michigan State University show that, in Sweden, increasing exposure to globalization leads to more assortative matching: that is more productive firms attract more skilled workers and more skilled workers prefer to work for more productive firms with export activities—matching of similar with similar offers an extra efficiency gain but also heightens income inequality
- Elhanan Helpman of Harvard points out, however, that no simple linear relationship between inequality and trade exposure in new trade theories: in relatively closed economies, more trade raises inequality; in relatively open economies, more trade reduces inequality as more and more firms trade; the rationale is intuitive: if all firms are exporters then all employers pay same wages
- Polarization: wage changes in United States, Europe and Brazil no longer follow simple dichotomy of high and low-skilled; faster increases among highest and least skilled, medium skilled workers lose in real wages over past decades; accompanied by a hollowing-out of employment opportunities among the middle groups

- Explanations

- Offshoring partly, changes in communication and information technology. Anna Salomons of Catholic University

Leuven argues that tasks within occupations matter

3 Offshoring

- New Approaches: Trade and technical change interrelated in rich ways; neither canonical labour nor canonical trade models able to explain wage distribution
 - Trade today less and less about exchange of final products. There is trade along the value chain, as individual production stages are offshored, which is akin to trade in tasks
 - Import of intermediate goods and services, import of investment goods
 - Trade in tasks model by Princeton economists Grossman/-Rossi-Hansberg points to possibility that workers whose co-workers' jobs were just offshored may experience wage gains and so may their laid off co-workers when they find a new onshore job
 - Hugo Rojas-Romagosa of the Netherlands Bureau for Economic Policy Analysis shows in extensive simulations that news might not be so good and that conventional effects of trade might hurt workers in more offshorable jobs
 - Much trade in capital equipment, as Jon Vogel of Columbia University points out, so international trade shapes technical change and the relative demand for skills. Countries that import a high share of capital goods experience strongest change in relative demand for skilled workers with associated wage gains

4 What Is Common, What Is Missing

- Common concern of trade and labour economists: Real income for average household and for individual households.
- To vary an often invoked image: The tide raises all boats. But what this research agenda shows: the associated waves raise some boats faster than others
- Real income is more than merely the wage earned when employed; the risk and duration of unemployment matter especially in the short run; but, not to forget, there is also a less expensive consumption basket for everyone with more varieties in the long run
- To take up Jose Manuel Salazar-Xirinachs opening remarks at the outset of the policy workshop, several presented research papers did take on the question as to how social protection can mitigate distributional consequences of globalization and restore efficiency
- As to Jose Manuel's comment that the foremost policy concern of skill acquisition remains largely unaddressed, I agree that much research has yet to be conducted
- For now, Mario Larch of the University of Bayreuth and Giordano Mion of the London School of Economics show how skill shortages restrict export-market participation and how managerial expertise with exporting is spread through the economy as managers change employment
- As to how endogenous skill acquisition can mitigate skilled labour shortages through continuous and vocational training, much remains to be done

On behalf of the researchers in the academic program, let me thank the ILO for its hospitality and facilitation of this excellent event.