

# **“Trade and Labor”**

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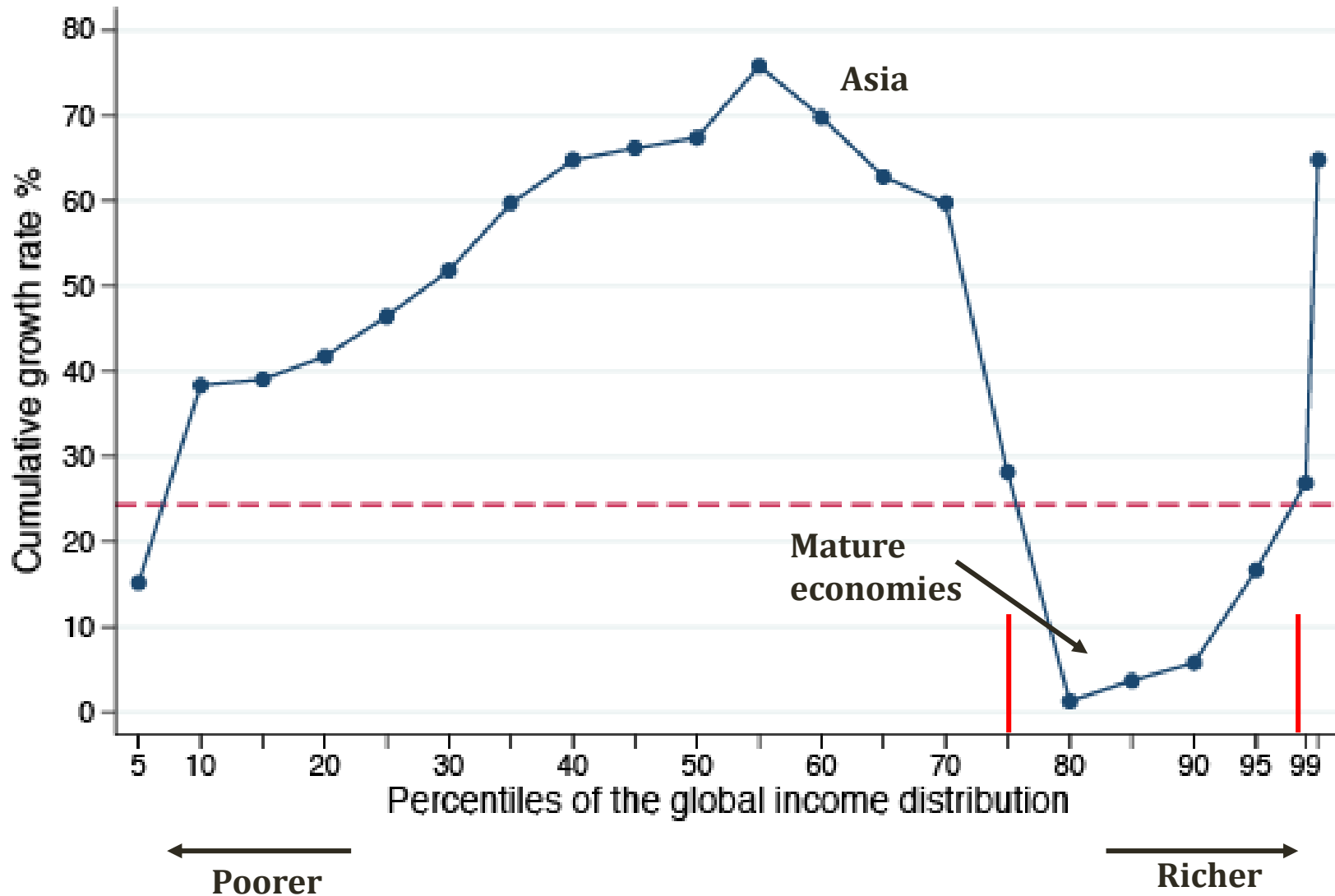
**Ohio State University**

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# Global Income Inequality

- **Global income inequality remains high - Gini coefficient at 72 in 1988 and 70 in 2008 (Lakner and Milanovic, 2015)**
- **Two key changes in global income distribution over this period:**
  - **Above average gains in income around median (driven by Asia)**
  - **Below average gains in income between 75<sup>th</sup> and 99<sup>th</sup> percentiles (mature economies)**

Global growth incidence curve, 1988–2008



Source: Lakner and Milanovic (2014)

# Impact of Trade on Labor and Wages

- While economists view trade as generating net benefits, always understood there may be distributional effects (Stolper-Samuelson, 1941), e.g., high-skilled vs. low-skilled labor
- Research in early-1990s suggested trade with low-income countries had little impact on inequality in high-income countries (Krugman, 2008)
- Technological change not trade was driving force affecting wages and employment (Autor *et al.*, 2016)

# The China Shock

- **Conclusions drawn before impact of “factory China” on high-income countries such as US**
- **Provided “natural experiment” in terms of evaluating effect of trade shocks**
- **Recent research highlights non-trivial effects on:**
  - **Number of manufacturing jobs lost (Acemoglu *et al.*, 2016)**
  - **Regional employment, worker mobility, wages and benefit transfers (Autor *et al.*, 2013)**

# Global Supply Chains

- **80 percent of global trade occurs within global supply chains (UNCTAD, 2013)**
- **“Slicing up” chains reveals much about distribution: 1995-2008 percentage change of input shares in value-added (Timmer *et al.*, 2014):**
  - **High-income countries, capital and high-skilled labor increased shares 2.9 and 5.0%**
  - **Low-income countries, capital and high-skilled labor increased shares 3.2 and 1.7%**
  - **Share of low-skilled labor fell in both high and low-income countries by -4.9 and -6.3%**

# Rethinking Stolper-Samuelson

- In high-income countries, increased investment in/use of “intangible” capital has driven shares of value-added for capital and high-skilled labor (Timmer *et al.*, 2014)
- Trade models adapted to capture this: skill distribution where high-skilled labor is matched with capital (Haskel *et al.*, 2012)
- Price/technology shocks favor high-skilled labor in capital-intensive sector
- Does better job of explaining US wage patterns

# Trade and Low-Income Countries

- **Puzzle: low-skilled workers in low-income countries have not benefited as much from trade liberalization as might be expected (Goldberg and Pavcnik, 2007). Why?**
- **Mobile capital has taken advantage of low-wage/low-skilled labor in low-income countries (Lewis, 1954)**
- **Foreign direct investment (FDI) in quality upgrading favors high-skilled labor, e.g., VW Beetles vs. VW Jettas in Mexico (Verhoogen, 2008)**



# **Economic Nationalism?**

- What is appropriate policy response, especially in high-income countries?**
- Protectionist trade policies are a very blunt instrument for addressing job loss and wage stagnation for low-skilled workers**
- Will generate significant net economic costs to both high and low-income countries**
- Instead focus should be on policies targeted at structural adjustment and proper compensation for those hurt economically by globalization**

# Moving Forward?

- Supporting wages of low-skilled workers in high-income countries should be *a* goal, but not *the* goal of national policy (Krugman, 2008)
- Maintaining a world trading system that permits development matters – some *caveats* though
- Seek *actual* as opposed to *potential* Pareto improvements in trade policy
- Maintain idea of “cosmopolitan” global social welfare function (Atkinson and Brandolini, 2010)