“Trade and Labor”

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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 75th and 99th percentiles (mature economies)
Global growth incidence curve, 1988–2008

Cumulative growth rate %

Percentiles of the global income distribution

Asia

Mature economies

Poorer

Richer

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)