

The labour market effects of trade

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Context

- Trade is coming under increasing fire in developed countries
 - Mixed views about particular trade agreements and trading relationships
 - Attitudes in developing countries more favorable to trade
- Reaction to trade is part of a reaction to globalization which also encompasses technology, migration, finance, etc.
 - Many people believe that the current system is not working for them
- Indeed, while many are doing well, some are being left behind
 - Within country income inequality is rising in many economies (US, UK, Canada, Australia, Germany, France)
 - Whole regions are left behind
- This raises a number of questions
 - Why are some individuals/regions left behind? Has anything changed?
 - What can be done to help those left behind?

Adjustment

- “No pain, no gain”
- Most of the benefits from trade – or technology - require resources to be reallocated from lower productivity to higher productivity firms/sectors
- Practically, this means that some workers may lose their job and may need to find another job
- This may be difficult

Adjustment costs

- New jobs are being created in exporting firms and sectors, mostly in dynamic often urban regions
- However, workers who lose their jobs in declining sectors, in exposed regions are not always well equipped and well placed to access these jobs
- Because of various “frictions” which constrain the mobility of workers, adjustment costs can sometimes be significant.
- Examples of frictions include: skill-related frictions, geographic mobility frictions, institutions related frictions

Employment

- Trade or technology shocks can cause unemployment in some regional labor markets
- However, there is no conclusive evidence of nation-wide absolute job losses from China's import competition in the United States
- Research taking into account that while some manufacturing jobs may be lost in some local labour markets, other jobs may be created in other zones or in the services sector suggests positive overall effect of trade on employment

Sectoral structure of employment

- Manufacturing employment has been on a downwards trend since the 1970s
- The share of US employment in industry has fallen from 34% in 1970 to 17.5% in 2016
- There are various reasons for this but technological progress seems to be the main one

Wages

- Trade reduces prices and thus increases real wages
- Trade increases the demand for skilled workers relative to unskilled workers in all countries
- Depending on a number of factors, this can translate into:
 - an increase in the skill premium
 - an increase in the share of skilled workers in employment
 - a mix of both
 - polarization
- If trade raises the skill premium, it will affect wage inequality

Policy responses

- Adjustment policies
 - Active and passive labour market policies
 - Important role for skills development policies
 - Other policies that help reduce frictions and adjustment costs
- Competitiveness related policies
- Compensation – redistribution measures