Chapter 1 : Globalization and Labour-Market Adjustment: How Fast and at What Cost?

Although economists have long pointed to the aggregate gains from increased economic integration, the popular perception of globalization is much more pessimistic.

The editors and authors gratefully acknowledge that financial support. Barbara Dluhosch is Professor of Economics, University. This page intentionally left blank 1 Introduction and Overview David Greenaway, Richard Upward and Peter Wright It has been argued that recent developments in international integration are historically large and have unprecedented characteristics OECD, While the value of international trade in goods and crossborder investment has continued to grow somewhat faster than global GDP, three key developments distinguish this episode of globalisation from those observed in the past. First, the entry of China and India into the world economy has had a huge impact on the potential global supply of labour. This fragmentation of production has also allowed the trade in a vast range of services which were previously regarded as non-tradable. Third, migration into almost all OECD economies has increased, with migrants making up a significantly larger proportion of the working-age population. Economists would naturally point to the benefits of this process. The gains from specialisation and exchange from increased integration should lead to an increase in output and aggregate welfare. Although economists have long recognised that there will be adjustment costs in the short-run, and that there will be winners and losers in the longrun, the consensus is that the benefits outweigh the costs, and that therefore the losers can be compensated. However, the popular perception of the impact of globalisation is far more pessimistic. In particular, the labour market consequences of globalisation are a source of genuine anxiety for many workers. Globalisation appears to have made workers feel less secure about their labour market position and raised a number of fears. First, there is a common perception that the advanced industrialised economies will be unable to compete with imports produced by cheap foreign labour. As a result, 1 2 Globalisation and Labour Market Adjustment there will be downward pressure on wages and increases in unemployment. Moreover, the jobs which are at risk are not just those in traditional manufacturing industries or those which require low-skilled labour. Because firms can now trade many services as well as goods, many more jobs are thought to be under threat, such as those in research and development, customer services or IT support. Workers in these jobs may have previously felt relatively insulated from the effects of globalisation. Third, migrants are frequently viewed as a threat to domestic workers, by out-competing indigenous workers for jobs and forcing down the wages of those that remain in employment. Until recently, a common view amongst academic economists was that these concerns were simply misguided. Academic studies which measured the impact of globalisation suggested that any employment effects would be small, and that the estimated gains from trade liberalisation dwarfed any costs of adjustment. This viewpoint was reflected in the theoretical modelling, where the Heckscherâ€”Ohlinâ€”Samuelson HOS model, in common with almost all models of trade, assumed that if workers lost their jobs then they would be re-employed immediately at the market wage. Recently, these beliefs have come under increasing scrutiny. Economists have begun to take seriously the popular concerns regarding the adjustment costs of globalisation and to evaluate whether these concerns are warranted. The GLM programme examines the extent to which labour market adjustment is caused by increased globalisation, and the consequences of this adjustment for labour market structures and outcomes. Labour market adjustment is identified with differential rates of job creation and destruction between firms, sectors, occupations, regions or countries. This can cause quantity or price adjustments in the labour market as workers change jobs, suffer unemployment or experience wage changes. This volume seeks to bring together recent work in this important and rapidly expanding area. The volume begins with the chapter by Carl Davidson and Steve Matusz, who expand on the themes outlined above and critically evaluate the traditional view that the adjustment costs of trade adjustment are likely to be outweighed by the aggregate gains. They then discuss a number of new theoretical developments which link globalisation to Introduction and Overview 3 labour market turnover and suggest why existing trade models may need to be modified in order to explain recent labour market developments and to address the concerns raised. They also emphasise how introducing microeconomic models of firm behaviour and of labour market adjustment into trade models can enrich our understanding of both the drivers of globalisation and its likely impact. The new models allow an examination not just of relative wage rates but also of job security. Their analysis of the long-run focuses on the role played by labour market rigidities and imperfections, such as imperfect factor mobility, minimum wages and collective bargaining institutions, in shaping the impact of trade liberalisation on the labour market. Their analysis on the short-run focuses on the wage and unemployment impact of workers who lose their jobs due to increased international competition. This chapter enriches both the theoretical and empirical modelling by introducing institutional detail, and is of crucial importance in understanding the differential response of industries and countries to trade liberalisation. An alternative approach to the analysis of the effect of globalisation on labour markets is to use Computable General Equilibrium CGE models. In Chapter 4, Niven Winchester summarises the research that uses CGE models which examine the impact of trade liberalisation on wage inequality. Although the majority of CGE are essentially HOS in character, minor changes in the underlying assumptions can lead to large changes in the predictions regarding the impact of trade. In Chapter 5, Udo Kreickemeier examines the impact of international integration in models where the wage does not fall to allow full employment. In these models, globalisation can affect not only relative wages, but also aggregate employment and the relative employment of different groups of workers. In light of the large employment differentials between skilled and unskilled workers which have arisen in many European countries which themselves have relatively rigid wages , this seems a very relevant approach. In contrast to the standard HOS model, this chapter shows that, as an economy opens up to international trade, the number of employed workers alters, the effort that these workers exert alters and the wage differential between sectors changes. Another commonly criticised feature of the standard HOS model is that it divides the workforce into a limited number of discrete skill categories, 4 Globalisation and Labour Market Adjustment e. However, an obvious characteristic of workers is that, although they are born with certain innate talents and abilities, many of their skills are learnt. This provides a much richer account of the adjustment process following trade liberalisation, and differentiates the impact for workers of different ages and experience. Trade shocks may disrupt career paths but also provide job opportunities for workers that were previously unavailable. Empirical evidence for this characterisation of the labour market is also presented. Traditionally economists have focused on the impact of trade on labour market outcomes. However, as noted, the current phase of globalisation has witnessed an increase in the trade in intermediate goods that has outpaced the trade in final goods. The most commonly cited reason for this phenomenon is the attempt by firms to outsource the most labour-intensive parts of their production process from high wage to low wage countries in order to cut costs. This is frequently offered as a reason for the deteriorating employment prospects of low skilled workers in the OECD. However, the labour market implications of outsourcing may be even more wide-reaching. First, more managers may be required to co-ordinate a production process which is now geographically dislocated. Second, if fragmentation is associated with increasing returns to scale, then outsourcing of production from one industrialised country to another may be facilitated resulting in an increase in intra-industry trade. Barbara Dluhosch reviews these developments in Chapter 8, and theoretically examines the labour market implications of fragmentation under imperfect competition. They begin by discussing the inherent difficulties in measuring outsourcing and discuss how these relate to the theoretical constructs. They then assess the strengths and weaknesses of the empirical work based on industry and worker level data. They conclude that there is evidence that international outsourcing leads to shifts in the relative demand for different types of labour, and this has implications for relative wages. The final chapter by Alexander Hijzen and Doug Nelson considers the impact of immigration on the labour market, an area of continuing political and economic controversy. Hijzen and Nelson critically evaluate the empirical work that has attempted to measure the impact of immigration. They argue that, in contrast to popular perception, the great weight of the empirical evidence suggests that the labour market effects of migration are likely to be small for indigenous labour. Globalisation, Jobs and Wages. Organisation of Economic Co-operation and Development. One thing that both friends and foes of free trade seem to agree on is that the central issue is employment. And an astonishing number of free-traders think that the reason protectionism is bad is that it causes depressions. In the United States, Scheve and Slaughter a, b find that globalisation has made workers feel less secure about their labour market position. These workers seem to be concerned that increased competition from low wage countries might lead to a reduction in their wages, or, perhaps more importantly, result in them losing their jobs. Surprisingly, they find that roughly two-thirds of Americans think that international trade has been a principal cause of a decline in US living standards. For example, in the paragraph that immediately follows the quote given above, Krugman It should be possible to emphasize to students that the level of employment is a macroeconomic issue, depending in the short run on aggregate demand and depending in the long run on the natural rate of unemployment, with microeconomic policies like tariffs having little net effect. Trade policy should be debated in terms of its impact on efficiency, not in terms of phoney numbers about jobs created or lost. As a result of attitudes such as this one, almost all of the attention of academic economists interested in the impact of trade on an economy has focused on the wage effects. In fact, most of the theoretical analysis has continued to assume that labour markets are perfectly competitive, so that job destruction rates are virtually irrelevant â€” workers do not care about losing their jobs if they can immediately find new ones at the market wage. This attitude now seems to be changing. In recent years, several theories have developed that link globalisation and the rates at which jobs are created and destroyed. While some of these theories continue to employ models with perfectly competitive labour markets and full employment, others have broadened their focus to allow for equilibria consistent with non-trivial spells of unemployment. As a result, some surprising new insights have emerged. For example, it has been suggested that the link between turnover rates and trade may go in an unexpected direction with turnover rates influencing the pattern of trade. The purpose of this chapter is to review several theories that link globalisation to worker turnover. These theories vary widely both in the nature of the link that is emphasised and the questions that are being addressed by the researchers. And, somewhat surprisingly, most of these theories are still in their very early forms. Thus, at the end of the chapter, we suggest several ways in which we think these theories need to be extended and refined in the future. The remainder of the chapter divides into six sections. In the next section, we review the traditional theory linking trade to turnover. This theory posits that increased exposure to trade causes a reduction in domestic production and employment in import-competing industries and an expansion of production and employment opportunities 8 Globalisation and Labour Market Adjustment in export-oriented industries. This suggests that trade increases job destruction in some industries while increasing job creation in others. Thus, trade reallocates employment across sectors, with the total effect on employment ambiguous. This makes trade riskier in the sense that trade patterns are more likely to be altered by small changes in policy or exogenous shocks. This theory, which was developed to explain recent shifts in the distribution of income, links globalisation, labour market turnover, human capital accumulation and wages, with the primary emphasis on the joint role of turnover and trade in determining rates of skill acquisition and wage rates. For example, this theory predicts that in export-oriented markets, liberalisation results in the most efficient firms expanding while the most inefficient firms either contract or exit the industry. This means that jobs are reallocated within the industry with increased job creation at some firms and increased job destruction at other firms within the same industry. They argue that worker insecurity stemming from globalisation may be tied to the recent increase in FDI by multinational enterprises MNEs. By operating multiple production facilities in different countries, MNEs can effectively play labour in one country off against labour in other countries. According to this theory, when labour markets are imperfect, equilibrium turnover generates uncertainty about future income streams. In industries with a great deal of turnover, firms must therefore pay compensating differentials to attract and retain workers. These wage premia push up autarkic prices and influence the pattern of trade. Briefly, countries tend to have a comparative advantage in industries in which turnover is low relative to the turnover in the same Globalisation and Turnover 9 industry in other countries. Note that according to this theory, equilibrium turnover influences trade patterns with high rates of job destruction in a particular industry, making it difficult for a country to compete internationally in that market. We argue that this theory is consistent with a wide variety of models of trade with imperfect labour markets search, efficiency wages, minimum wages and that it is consistent with data on job and worker turnover in US manufacturing sectors since the s.

Chapter 2 : Globalisation and labour market adjustment (Book,) [calendrierdelascience.com]

In this paper we argue that the flexibility of an economy's labour market plays a role in determining the gains from trade liberalization, the level of short-run adjustment costs, and the relative.

Lucian Cernat , Federica Mustilli Trade agreements have become a growing source of concern due to the potential job losses that some sectors can incur as a result of increased competition. Although the economic literature shows that the overall results of trade liberalisation are positive, some sectors may be adversely affected, leading to job losses and adjustment costs. Despite the relevance of the EGF as a trade-adjustment mechanism, the existing evidence suggests that its use is still limited compared to its potential. This paper reviews some of the constraining factors identified in the latest mid-term evaluation by the European Commission and suggests several avenues for further improvement. Set up in by the first Barroso Commission, the EGF was welcomed by many, including EU member states, trade unions and other social actors, international organisations, etc. In this way, it will provide a stimulus to respond appropriately and effectively to the adverse impact of market opening. The fund will help workers made redundant back to work because we want a competitive, but also a fair EU. The current political context has brought these issues even more acutely to the fore. Anti-trade views and claims of the trade-related negative effects on labour are not only regularly in the pages of newspapers; they were also some of the main issues alongside migration and income disparity that influenced the current political situation. A general reflection on the social impacts of globalisation was recently produced by the European Commission, signed by Vice President Dombrovskis and Commissioner Thyssen. However, in the first decade of its existence, the EGF has not reached its potential and remains underutilised. This paper aims to provide a reassessment of the main issues that may be of relevance to the impact the EGF could have in the future in the trade and globalisation debate. We begin by reviewing the main elements in the economic literature and in the current policy debates that are of key relevance to the original rationale and current functioning of the EGF. On the basis of existing ex post evaluations and additional information, we then identify the strengths and weaknesses of the EGF in its current form. We conclude with some suggestions for the future, in particular in those areas that could make the EGF better able to face the globalisation challenges confronting the European economy. However, gains from trade are unevenly distributed both among and within countries, due to the short-term adjustment costs incurred by shrinking sectors or the fact that some people will simply be worse off in absolute terms. Finally, resources are reallocated in such a way that the most productive firms thrive and the least productive ones lose market share and, sometimes, are forced to exit the market. Indeed, trade liberalisation is beneficial for firms whose comparative advantages increase when bilateral tariffs are removed, and this is good for the economy as a whole. Figure 1 back to the text Employment supported by EU exports as a percentage of total employment, by member state, and Sources: EU exports to the world: This trade-induced competitive specialisation involves labour churning. The so-called losers from trade tend to experience an adjustment period, during which the workers relocate themselves, ideally to the most competitive firms and sectors of the economy, which expand thanks to trade reforms. The duration of the adjustment period can undermine the initial benefits, especially in periods of limited economic growth. In this respect, institutions can play a significant role by taking care of those adversely affected by trade liberalisation. In particular, the strategy recommends a more proactive response to deal with trade-related labour adjustment costs: Actively managing change is therefore essential to making sure the benefits of globalisation are fairly distributed and negative impacts are mitigated. The social consequences of market opening must be addressed. Adverse impacts of import competition in a globalised world There is a growing popular perception that bilateral and multilateral free trade agreements are the main causes of income inequality. However, the picture is much more complex, and economic interdependence is not a reversible process â€” at least not without major economic upheavals. Recently, the economic literature has started to identify the long-term effects of the globalisation process in some industries and countries. In particular, Autor et al. This figure includes the impacts on both the manufacturing sectors directly exposed to Chinese competition and those indirectly linked to it. Their analysis is partially confirmed by Lawrence, who analysed the effect of Chinese imports on job displacements in the United States between and These labour adjustment costs may suggest that trade with a large, low-wage emerging economy necessarily leads to negative overall effects for the importing partner. Without diminishing their importance, these results must nevertheless be framed in the right context: Second, whenever such labour displacement effects occur, the gains from trade liberalisation are typically large enough to ensure that displaced workers can be covered by trade adjustment assistance programmes like the ones discussed in this paper. The main objective of these trade initiatives is to exploit any possible sources of growth to support employment in all EU member states and their trading partners. Recent data shows that exports from each EU member state not only support jobs in their domestic market but also in other member states where production contributes directly or indirectly along the complex supply chains created by the single market. For instance, in Over EU SMEs engage in direct export activities beyond the single market, and they employ over 6 million workers. Therefore, the international market interdependence made possible by growing global value chains also allows SMEs that are not able to export their products to be part of those value chains by providing intermediates to bigger firms. Firms engaged in international trade not only employ a growing number of EU workers but also offer a wage premium. The European Globalisation Adjustment Fund: Strengths and weaknesses The EGF is a unique policy tool at the EU level which is able to support workers made redundant due to the effects of globalisation and economic crisis by co-financing active labour market policies. In practice, the competent authority, who is also responsible for the successful implementation of the training, profiles the needs of the respective workers, designs the measures on the basis of those needs and allocates the budget accordingly. EGF applications, , by scope Source: The scope of the support envisaged by the regulation assumes that a financial contribution is needed if workers have been made redundant as a result of globalisation, defined as major structural changes in world trade patterns such as an increase in imports, sudden shifts in the trade in goods or services, offshoring, or a decline in market share , or as a result of global financial crisis. According to the current regulations, any economic consequences that are potentially directly linked to EU policies such as free trade agreements or economic sanctions are not covered unless the applicant shows that the scope and intervention criteria are fulfilled. Applications are accepted if one of the two intervention criteria is fulfilled. The first criterion is that at least workers have been made redundant a over a period of four months or b over a period of nine months if workers belong to the same sector or have been grouped by SMEs. The second intervention criterion consists of proving a serious impact on employment at the local, regional or national level. Figure 2 shows the actual number of applications processed by the European Commission since It is worth underlining that, with the exception of the period from to , the main reasons for applying have been an increase in imports, offshoring or a decline in market shares as a result of globalisation. Out of the applications received, have already come to the end of the implementation period and are close to the final drafting of the summary report. Another 25 are having the adopted measures implemented, seven are currently under assessment, 17 have been withdrawn and just one has been rejected. Workers covered include those not in employment, education and training. The kind of intervention currently envisaged under the EGF is such that it can provide support only in ex post, unexpected circumstances. As a result, the approval process for individual cases is longer and procedurally more cumbersome. The ESF is included in the MFF and represents a complementary policy measure that deals with the general effects of globalisation. The ESF provides financial support for a long-term strategic response to the challenges imposed by the globalisation process. Unlike the EGF, it is not meant to support on a one-off basis the consequences of a specific restructuring event that has caused workers to be made redundant. As shown in Figure 2 , the number of cases does not offer a clear picture of the dimension of the intervention provided by the EGF and its full potential. Despite not fully using its financial envelope, the figures show that since its establishment the EGF has co-funded retraining for almost redundant European workers. Another possible way to draw some conclusions from the applications received so far is to look at the number of job redundancies in each member state that have been supported by EGF retraining programmes since its establishment see Figure 4. Regardless of the absolute numbers, which may be lower than the actual redundancies incurred by member states, the difference between Western and Eastern European states is quite striking. This evidence raises two possible conclusions: A recent study indicates that the impact of globalisation on employment, which is currently at the centre of the policy debate, is declining compared to the pre-crisis level. Figure 5 back to the text Annual EU employment growth by sector, comparing with Note: Q1 data in each year. The horizontal axis represents the annual percentage change in The vertical axis represents the annual percentage change in ERM annual report However, as amply illustrated in the preceding sections, such deep integration processes also create temporary, sector-specific and localised negative adjustment costs in the EU labour force. Denying this simple fact or assuming that labour markets work perfectly and that displaced workers find new jobs seamlessly jeopardises the very economic legitimacy that made globalisation and trade a major driving force for prosperity around the world. Based on this premise, the founding rationale for the EGF, as one of the instruments offering a safety net for those workers that need to find a new job in a more efficient EU economy that is equipped to reap the benefits of global open markets, is stronger than ever. See Box 1 for a mid-term evaluation of the EGF. Beyond this general argument, several other, more specific elements plead in favour of a stronger and more effective EGF. First, there is a coherence argument. It is logical that at least part of the financial responsibility for the negative side effects induced by EU policies should also be borne by the EU budget. Second, there is an economic argument. Third, there is a cohesion argument. Having a trade-specific cohesion and redistribution instrument at the EU level that ensures that the losers in one member state can be compensated by the winners in another makes both political and economic sense. It is difficult, however, to assess in a straightforward manner whether those people managed to relocate themselves to different sectors and whether they have been upskilled thanks to the EGF. What we know is that the EGF may have been helpful, but clearly its intervention cannot be seen as the only determinant of successful cases. Interestingly, the report shows that there is no correlation between the re-employment rate and allocated funding. Other factors are also important for the successful reintegration of redundant workers, such as the education and skills profile of beneficiaries; the economic performance of the affected regions, including the rate of unemployment; and the responsiveness of the measures to the needs of beneficiaries. Another encouraging finding from the beneficiary survey reports is that in almost half of the case studies, re-employed workers successfully shifted between economic sectors. The number is probably lowered by the fact that many EGF beneficiaries were close to retirement age, reducing the motivation to relocate to different sectors. Demand-side factors such as the smooth functioning of domestic labour markets are also crucial to make any labour reallocation strategy successful. The chances of success are positively influenced by adequate knowledge of the application procedure, by well-established and targeted assistance and, most importantly, by well-functioning and pre-existing national restructuring framework programmes into which the EGF is integrated. To conclude, although the case analysis is limited, the evidence shows that the EGF provides a substantial contribution to active labour market policies. The financial support allows domestic reallocation strategies to be reinforced and intensified. Much can still be done, however, to promote the use of the EGF in countries where restructuring programmes are not so well established. Last but not least, there is a political argument in favour of having a reinforced response to both real and perceived trade-related costs for the EU labour force. Without such a credible response, the rise of protectionist and anti-trade sentiments will erode the very benefits of open markets that millions of EU firms, workers and consumers have come to enjoy. Assuming these arguments provide a powerful rationale, what concrete improvements could lead to a reinforced EGF? First of all, the scope of the EGF should reflect the current evolution of globalisation and assist redundant workers who are suffering from the uneven distribution of its effects. The scope of the EGF could be broadened to include the effect not only of trade-related policies but also of innovation-driven globalisation. In addition to its scope, some procedural elements of the EGF could be improved.

Chapter 3 : Globalisation and Labour MarketAdjustment - PDF Free Download

Globalisation and Labour Market Adjustment Edited by David Greenaway Leverhulme Centre for Research on Globalisation and Economic Policy, University of Nottingham.

Chapter 4 : EconPapers: The Assessment: Globalization and Labour-Market Adjustment

the assessment: globalization and labour-market adjustment oxford review of economic policy, vol. 16, no. 3 david greenaway university of nottingham douglas nelson.

Chapter 5 : Globalization and Labour Market Outcomes

3 Globalisation and Labour Markets: Literature Review and Synthesis by D. Greenaway and D. Nelson Abstract The literature on the labour market effects of globalisation is voluminous.

Chapter 6 : Action Record - Globalisation and labour market adjustment

The GLM programme examines the extent to which labour market adjustment is caused by increased globalisation, and the consequences of this adjustment for labour market structures and outcomes. Labour market adjustment is identified with differential rates of job creation and destruction between firms, sectors, occupations, regions or countries.

Chapter 7 : Globalisation and labour market adjustment (eBook,) [calendrierdelascience.com]

2 Globalisation and Labour Market Adjustment there will be downward pressure on wages and increases in unemploy-ment. Second, there is a widespread fear that.

Chapter 8 : Globalisation and Labour Market Adjustment : Richard Upward :

Abstract. In this paper we argue that the flexibility of an economy's labour market plays a role in determining the gains from trade liberalization, the level of short-run adjustment costs, and the relative value of these two measures.

Chapter 9 : Globalization and the Labor Market

The importance in studying the effects of globalization on the labor market lies in the fact that earnings from labor represent the main source of income for the great majority of the inhabitants of developing nations and especially of the poorer groups of workers, who lack ownership of any other material assets.