

Globalisation and the Labour Market

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Globalisation and...

- ...employment
 - Short-run displacement of workers.
 - Possibly effects on equilibrium employment, but unclear in which direction.
- ...wages
 - Long-run effects on the level and distribution of wages.
- Main message: empirical research finds (surprisingly) small effects.
- ...volatility in the labour market

Globalisation and employment

- Studies estimating the relationship between *foreign* and *domestic workers* within multinational firms.
 - Substitutes, but only weakly so if the foreign affiliates are located in low-countries (based on US, EU, Swedish and German data).
- Studies comparing hiring and firing behaviour of *multinationals* to *non-multinational* firms.
 - Multinationals seem to respond *less* but perhaps *more quickly* to wage and demand shocks than compared to local firms (based on Italian and German data).

Globalisation and wages

- Conventional wisdom: *globalisation* less important than *technological change* in explaining increased wage inequality in countries such as the US and the UK.
- But, globalisation influences technological change and *vice versa*.
 - For instance, increased market size increases incentives for investing in low marginal cost technology.
 - IT revolution has made previously non-traded services tradable.
- Still, most empirical studies find only relatively small effects of trade on the relative demand for different types of labour.

Offshoring and wages

- Recently, strong interest in finding out the labour market effects of *offshoring* of intermediate inputs and services
- Small effects reported in essentially all studies.
- One obvious reason for this is that offshoring to low-income countries is still small in magnitude.
 - In Sweden, about 10 percent of all inputs (goods and services) were imported in 2000, and only a small share of this originated in low-income countries.

Offshoring and wages (cont.)

- However, some evidence offshoring is associated with a labour demand shift away from workers with *intermediate skills*.
- Finding in studies using educational attainment to measure skills (Germany and Sweden).
- Supports the idea that it is mainly middle-skilled jobs that are affected (services that can be codified and impersonally delivered).

Offshoring and wages (cont.)

- For Sweden, the increase in imported intermediate inputs from low-income countries 1995-2000 is estimated to have reduced demand for workers with upper secondary education with less than 1 percent (Ekholm and Hakkala, 2006).
- The effect is different than the one from technological change (measured by R&D).
 - seems to primarily shift labour demand away from workers with the lowest educational attainment (lower secondary).

Globalisation and volatility in the labour market

- Globalisation might affect the volatility in the labour market, but unclear in which direction.
 - Greater exposure to foreign competition, but also less exposure to domestic wage and demand shocks.
- Domestic institutions may however interact with globalisation in a way that affects the volatility.
 - The flexibility with which labour market regulation enables firms to adjust to idiosyncratic shocks may be a source of comparative advantage.
 - Evidence that, other things equal, countries with more flexible labour markets specialize in industries with high volatility (Cuñat and Melitz, 2006).
 - Sweden gets average score on labour market flexibility.

Average volatility and labour market flexibility (GDP per capita > \$5,000)



Source: Cuñat and Melitz, "Volatility, Labor Market Flexibility, and the Pattern of Comparative Advantage", 2006.