



Trade-induced changes in labour market inequalities:
current findings and methodological issues

Edward Anderson
ABCDE 2006, Tokyo
Parallel Session 1, May 29th



Overview

- Trade creates winners and losers in the labour market
 - by sector, skill, region and gender
- Political, moral and economic arguments for compensating losers
 - but often in conflict
- Further challenges in designing compensatory mechanisms
 - but range of experiences in OECD on which reformers can draw.

Winners and losers framework

- Advantages over alternative frameworks
 - e.g. ‘adjustment costs’ of trade, trade and inequality
- Applies to labour market but also other effects
 - e.g. effects on net producers vs. net consumers
- Policy relevance at inter- and intra-national level
 - e.g. aid for trade



Winners and losers: by sector?

- Gains in manufacturing employment, e.g. Bangladesh, Vietnam (Jenkins and Sen 2006)
- Losses in OECD 1970s-90s, which may be repeated in some LDCs with MFA phasing out
- Expanding sectors = winners, declining sectors = losers?



... or by skill?

- Variation in length of unemployment, and wage loss/gain from job search, within sectors
- Trends in relative wages of more-skilled workers
 - up by 20% in Brazil, 1992-99 (college/secondary)
 - up by 80% in Chile, 1970s-80s (college/elementary)
 - up by 55% in Mexico, 1987-95 (non-production/production)
- Stagnant real wages of less-skilled workers in each case
- Higher relative wage persistent, despite supply-response



Arguments for compensating losers

- Political
- Moral
- Economic

- Conflicts:
 - moral vs. economic
 - political vs. moral



Mechanisms for compensating losers

- Sequencing
- Compensatory schemes
- Social insurance
- Education and training

Some OECD country experience

- Trade-Adjustment Assistance in the US
 - 2 million workers benefiting since early 1970s
 - applies when imports “contribute importantly” to job loss.
- Active labour market policies in the US and W Europe
 - reasonable benefits but penalties for job refusals
 - service co-ordination and ‘one-stop shops’



Conclusions

- Winners and losers a useful framework
- Skill a more important distinction than sector
- Knowledge gaps in research
 - job search: how long, at what wage cost, by who?
 - returns to skill: evidence for low-income countries
- North-South policy lessons?