

The image shows a spiral-bound notebook with a light brown, textured cover. The spiral binding is on the left side. The text is centered on the cover.

Globalization and Wage Inequality

Trade, Outsourcing and Immigration

Impact of Trade

- ✓ Review theory of comparative advantage
- ✓ Higher trade deficits in durable goods accompanied by larger college wage premium. (Borjas, 1995)
- ✓ Considerable debate over importance of trade as explanation for growth in wage inequality

Does Trade Explain Wage Premium?

- ✓ Prices of unskilled goods, labor intensive goods should have fallen, but they didn't. Many trade restrictions remained in place.(Bhagwati, 1995)
 - ✓ But apparel and textile prices fell in the 1970s and it takes time for market to adjust Futhermore, unemployment rose in the 1970s. (Leamer, 1996)
 - ✓ Even if prices of unskilled goods fall, wages of unskilled may not fall. (Bhagwati, 1995)
- Measures of import penetration and outsourcing do not “explain” skill upgrading within industries (Autor et al; and Machin and Van Reenen)

Outsourcing

- ✓ Firm's respond to import competition by outsourcing -- moving non-skill intensive activities to other countries
- ✓ From 1972-79, outsourcing has no effect on nonproduction wage share. (Feenstra and Hanson, 1996)
- ✓ From 1979-90, increase in outsourcing associated with increase in nonproduction wage share

Immigration

- ✓ If skill distribution of immigrants differs from skill distribution of native workers, immigrants will affect the wage distribution
- ✓ Recent immigrant waves have been relatively less skilled than earlier waves
- ✓ Supply and demand and skill complementarity
- ✓ Dynamic analysis

Area Analyses

- ✓ Compare geographic areas that are gateways for immigrants with those that aren't
- ✓ Most studies have found little effect of immigrants on wages in those areas, but studies may have not adequately controlled for differences in local labor market conditions (Borjas, 1996)

Factors Proportions Analyses

- ✓ Immigrants increase supply of one factor relative to another
- ✓ Immigration disproportionately increased supply of college dropouts (Borjas, 1996) and accounts for drop in relative wages of this group.
- ✓ Immigration and trade contributed modestly to fall in wages of high school educated (Borjas, 1996)

Interim Summary

- ✓ Computer use and R&D associated with skill upgrading
 - This could be because they are complements with college educated workers or because they have changed organizational structures
- ✓ Greater international competition may have contributed decline in wages of less skilled (but not necessarily because of decrease in demand)