

IDC Lecture

Globalization and Inequality

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May 2018

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GLOBALIZATION AND INEQUALITY



- Historical background

Main Content

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- Traditional (neoclassical) approach

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- Broadening the canvas

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 - Residual inequality
- Based on available evidence, foreign trade does not appear to be the main driver of inequality

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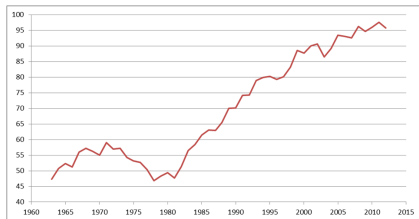
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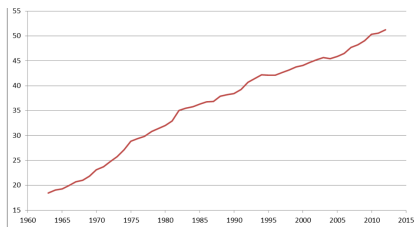
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- Dramatic decline in world poverty since the 1980s, as less developed countries have joined the world trading system
- Rising inequality **within** many OECD countries

College Wage Premium

U.S. college wage premium and share of college hours:



College versus high school measured wage gap. Autor (2014)



College share of hours worked: all working age adults. Autor (2014)

Possible Explanations

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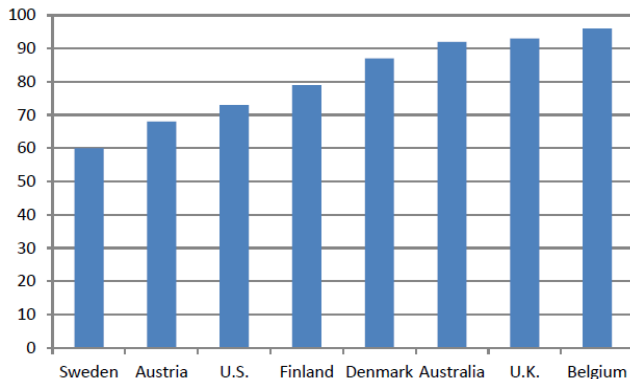
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 - Consistent with **global** technological change

Employment

Share of within-industry contribution to the increased percentage of nonproduction workers (Berman, Bound and Machin, 1998):



Similar shifts in less developed countries

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 - positive correlation across many countries, rich and poor, in sectoral technology upgradings

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- **Residual wage inequality** was large and contributed significantly to rising wage inequality

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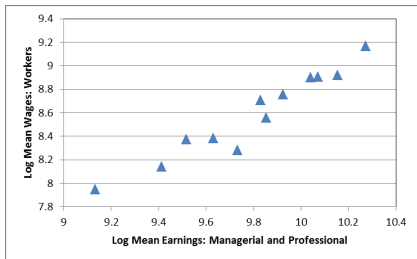
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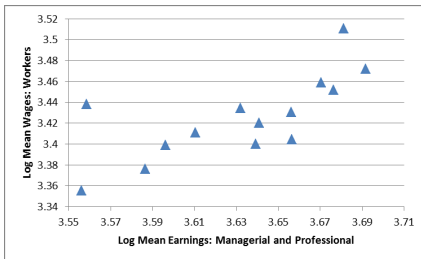
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- Labor market frictions

Correlated Compensation Levels



Brazil 1994



Sweden 2004

The China Shock

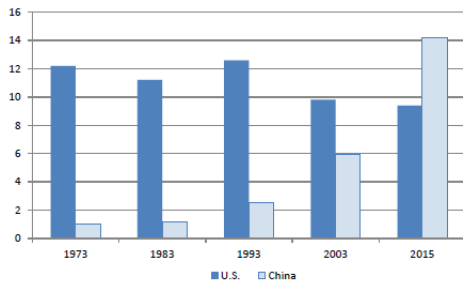


Figure 8.1: Shares of China and the United States in the world's merchandise exports (in percent). Source: World Trade Organization (2016, Table A4).

Evidence on Inequality with Matching: Lee (2017)

Table: Rise in U.S. Real Wages: 2000-2007 (in percent)

Worker type	HD	HG	SC	CG	AD
Decline in trade costs	1.15	1.15	1.49	1.62	1.81
Rise in China's productivity	0.06	0.09	0.13	0.14	0.17

Worker types: high school dropouts (HD), high school graduates (HG), some college education (SC), college graduates (CG), and advanced degrees (AD).

Regional Disparity: Brazil

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- Skill premia declined, but the declines can explain at most 14% of the 1991-2000 actual shifts

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 - Lazear and Spletzer (2012): in the last quarter of 2007 there were over 12 million hires and separations (other estimates show quarterly turnover of 9 million in other periods)

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- Employment problems are highly localized, not **macro** problems

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 - ④ exporters pay higher wages
- A new theory of trade with heterogeneous firms was developed (Melitz, 2003), emphasizing [selection into exporting](#)

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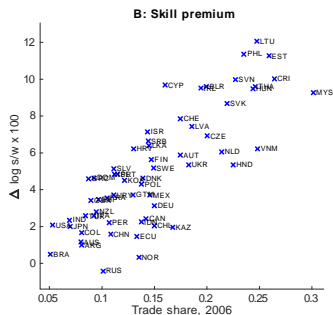
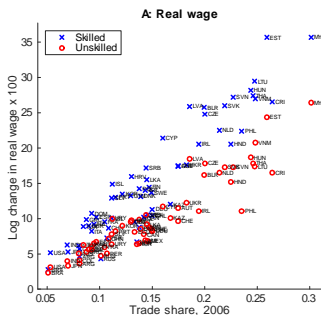
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- Factor proportions magnify the inequality in rich countries, moderate inequality in developing countries

- From autarky to trade in 2005-2007 (Burstein and Vogel, 61 countries):

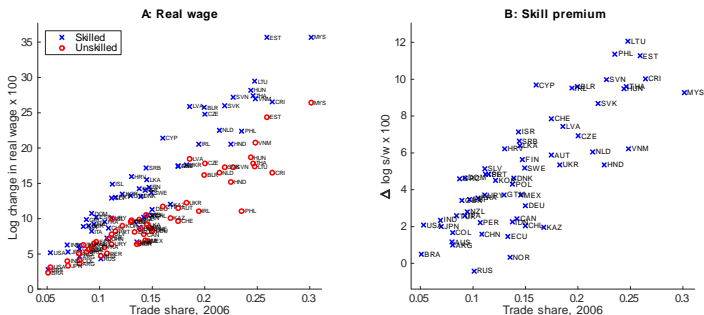
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- These combined effects explain only a fraction of the rise in the college wage premium

Residual Wage Inequality

- **Brazil:**

	Level 1990	Change 1986-95
Residual wage inequality	57	48
—within sector-occupation	88	91

Helpman, Itskhoki, Muendler and Redding (2017)

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Helpman, Itskhoki, Muendler and Redding (2017)

- **Sweden:**

	Level 2001	Change 2001-7
Residual wage inequality	70	87
—within sector-occupation	83	79

Akerman, Helpman, Itskhoki, Muendler and Redding (2013)

Trade Liberalization (Brazil)

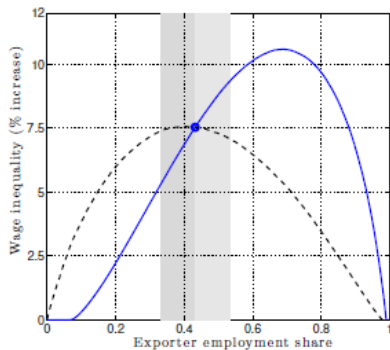


Figure 1: Counterfactual wage inequality

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Conclusions

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- 3 Heterogeneity of inputs and firms sets in motion novel channels through which foreign trade impacts wage inequality
- 4 While the novel mechanisms find support in the data, better explaining the link between trade and inequality, their quantitative impact is not very large
- 5 **Based on available evidence, foreign trade does not appear to be the main driver of inequality**