WTO-ILO Workshop on Global Trade and Employment

Labor Market Adjustments to Trade Policy

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Labor Market Adjustments

Four Themes Related to my Research:
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2. Intrahousehold Spillovers
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3. Adjustment of Skills
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2. Intrahousehold Spillovers
3. Adjustment of Skills
4. Capital Adjustment Costs
Labor Market Spillovers

- Results are sensitive to assumption on labor markets: integrated, segmented
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- Spillovers can be relevant in developing countries
  - Manufacturing and non-tradables
  - backward and forward linkages

Mexico and corn prices:
- increases in in-farm labor
- increases derived demand for related services (fence repairing)
- consumption responses
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Intrahousehold Spillovers

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  - more agricultural activities
  - unchanged labor supply
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Vietnam catfish: U.S. antidumping

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- household income declined (twice)
Adjusting Skills

- How do skills adjust to different types of trade reforms?
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- Why?
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  - demand for associated services
  - marketing costs (market penetration costs)
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This requires skills
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  - pay higher average wages (meaning that they employ workers with higher average marginal productivity)
  - hire a higher ratio of non-production to production workers (skills)
  - pay higher wages conditional on skill composition (or hire a higher skill composition conditional on wages)
Implications for Adjustment

The type of trade reforms a country implements and the type of trade agreements you adopt have implications for how domestic markets will adjust.
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- Mexico and NAFTA
- Argentina and MERCOSUR
Capital Adjustment Costs

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- This project: explore impediments originated by the behavior of firms
- What happens if firms need to invest following a trade liberalization episode, but capital adjustment is not instantaneous?
An Example
Capital Adjustment Costs

- Capital-Skill Complementarities

- What are the sources of capital adjustment costs?