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The Global Labor Market Impact of Emerging Giants: a Quantitative Assessment

Rafael Dix-Carneiro
University of Maryland

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Discussion of "The Global Labor Market Impact of Emerging Giants: a Quantitative Assessment," by Levchenko and Zhang

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- Very good paper for at least three reasons:
 - Labor market issues have typically not been studied within general equilibrium models of trade
 - It gives us objective numbers for the welfare consequences of trade, which is what policy-makers want
 - Very competent execution of a complex analysis
- As is always the case with interesting papers on important topics: we want more!
- I have 3 points to make
 - Magnitude of the gains from trade
 - Labor market frictions
 - Gains from trade-induced reallocation

Gains From Trade

- Workhorse models of trade usually generate gains from trade that are too small to be plausible (Armington-type, heterogeneous firms (Melitz (2003)), quantitative Ricardian models (Eaton and Kortum (2002))).
- Example: in this paper, China's move from autarky to current levels of trade costs adds only 3.5% to aggregate welfare in that country.
 - 1.6% for India.

Gains From Trade

- Ossa (2012): imports in some industries do not matter much for the gains from trade, but imports in some industries are crucial to the functioning of the economy.
 - Different industries have different elasticities of substitution.
- The workhorse models of trade typically assume the same trade elasticities across industries, and consequently miss the potentially large welfare effects of trade in some industries.

Gains From Trade

- In Eaton-and-Kortum-type models, as the one here, the elasticities of trade are driven by the dispersion in productivity θ
- Caliendo and Parro (2012) developed a methodology to estimate industry-specific productivity dispersions.
 - These range from 0.49 (Auto); 0.88 (Plastic); 0.9 (Transport) to 14 (office equipment)
 - The average dispersion is equal to 9, close to the value of 8.28 used in this paper.
- Levchenko and Zhang (2012) argue that this methodology leads to noisy estimates, and sometimes to negative dispersion values.
 - I think worthwhile investing some brainpower in adapting Caliendo and Parro (2012) or developing a new methodology to estimate industry-specific productivity dispersion.
 - We want to make sure we get the gains from trade right.

Short Run and Full Employment

- Classical (old?) view in the international trade literature:
 - Long Run: factors are perfectly mobile
 - Short Run: factors are fixed and stuck to their sectors (specific factors model)
- In both cases: the economy has full employment.

Short Run and Full Employment

- A key concern of policy makers are the employment consequences of increased trade integration
 - Autor, Dorn and Hanson (2012) find that American regions (commuting zones) with industrial composition facing fiercer competition from Chinese imports went through an economically significant reduction in employment... These effects are found over a window of 7 years!
 - Menezes-Filho and Muendler (2011) show that the large-scale trade reform in Brazil increased transitions to unemployment and out of the labor force.
 - They also find longer unemployment spells as a result of trade reform.
 - Idle resources are an important reality following increased foreign competition (at least in the short run).

Short Run and Full Employment

- When I think about trade and labor market frictions:
 - Workers willing to switch industries and/or firms, but only some are able to
 - Workers being displaced from contracting firms/and or sectors and some becoming unemployed
 - Expanding firms and/or sectors cannot expand as fast as they wish

Short Run and Full Employment

- In this paper, labor market frictions = workers stuck in their sectors, but full employment
 - The labor market frictions in play in the real world are of a different nature
 - In the current paper, there is perfect reallocation within sector... But there could be frictional unemployment and slow transition
 - Once we start thinking labor market frictions and about adjustment costs we need to think about the transition of the economy and weight short run and long run welfare outcomes to get a full picture regarding welfare consequences of trade.
 - Some countries will be able to reap the benefits from trade faster than others, depending on their degree of labor market flexibility.
 - Cross-country differences in labor market rigidities may also play in shaping the pattern of comparative advantage: Helpman and Itskhoki (2009), Cunat and Melitz (2012).

Gains From Trade and Reallocation

- Reallocation of resources are at the heart of the gains from trade
- Gains from trade under flexible factor markets vs. perfectly inflexible factor markets are very similar.
 - This is an interesting and surprising result: I would like to gain more intuition on why is this case.
- The paper finds large distributional effects within countries: there are huge incentives for reallocation.
 - Consequently, I suspect the model does generate a substantial amount of reallocation within sectors.
 - How come the gains from reallocation are so minimal, then?