Winners and Losers of Globalisation

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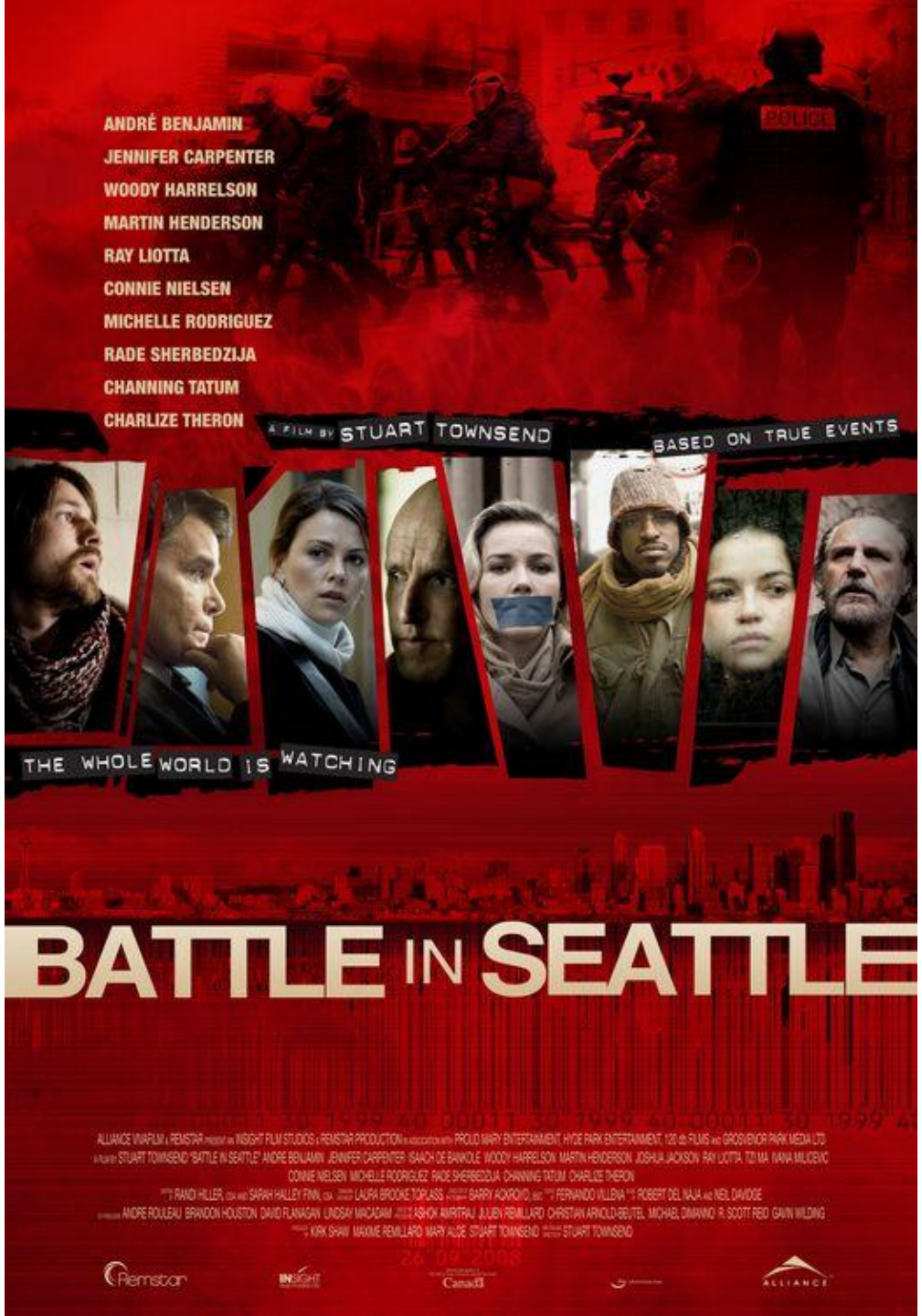
The Battle in Seattle, 1999


ANDRÉ BENJAMIN
JENNIFER CARPENTER
WOODY HARRELSON
MARTIN HENDERSON
RAY LIOTTA
CONNIE NIELSEN
MICHELLE RODRIGUEZ
RADE SHERBEDZIJA
CHANNING TATUM
CHARLIZE THERON
A FILM BY STUART TOWNSEND
BASED ON TRUE EVENTS
THE WHOLE WORLD IS WATCHING
BATTLE IN SEATTLE

Globalisation and its discontents...

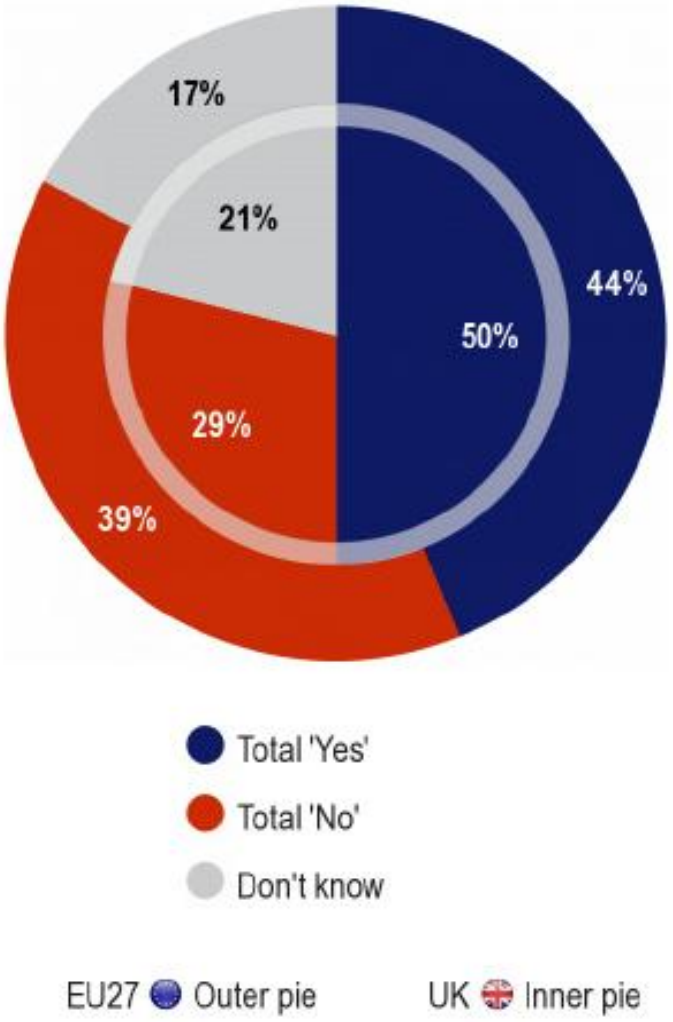
According to its critics, globalisation:

- Destroys the ability of states to regulate their national economies
- Destroys the livelihood of peasant farmers
- Destroys the environment
- Lowers real wages and labour standards and increases economic insecurity everywhere
- Causes mass destitution and increased inequality between and within nations
- Is causing a global race to the bottom

and the list goes on and on...

Are you currently benefiting from international trade?

This is how things look nowadays...

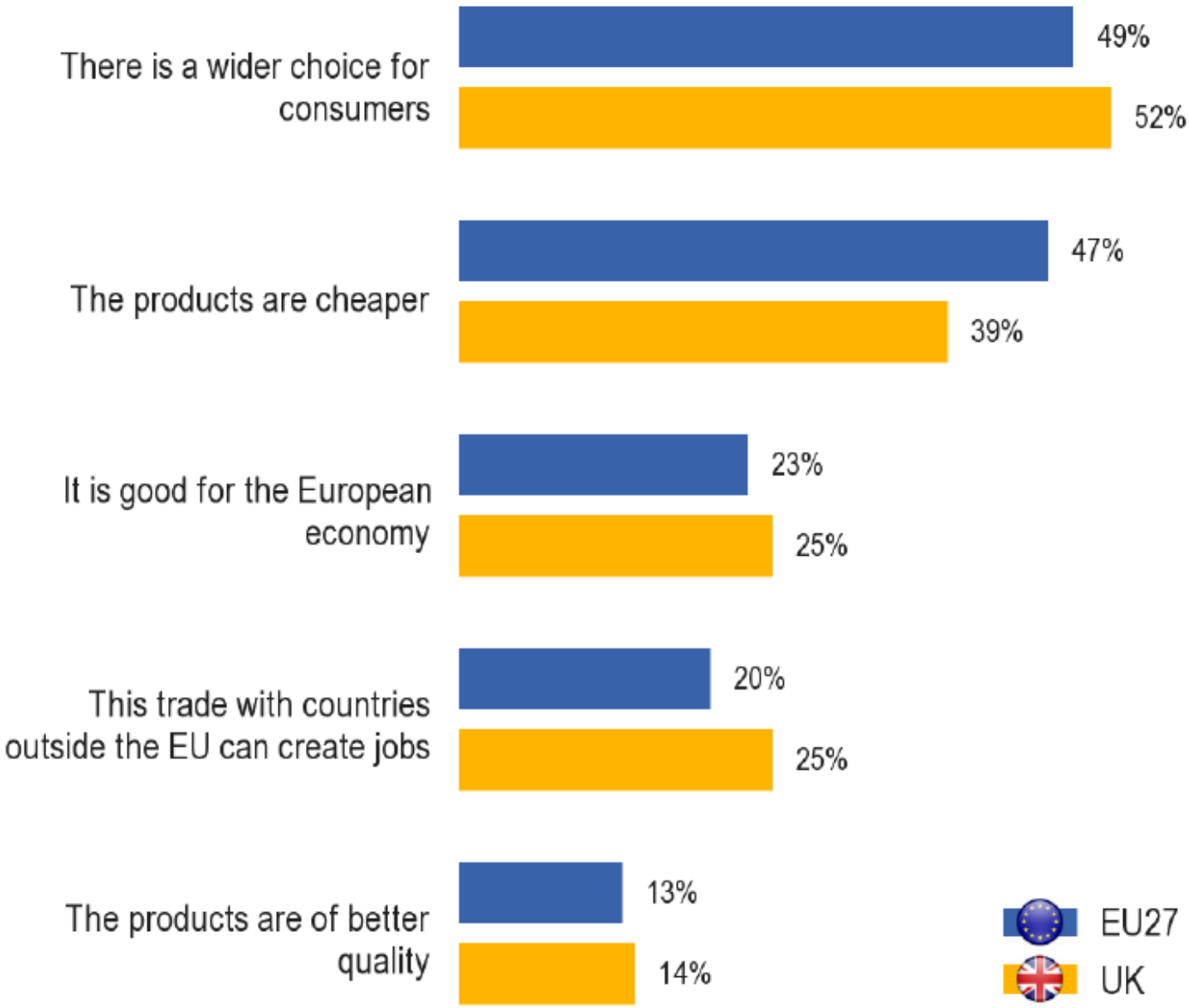


Source: Eurobarometer (2010)

Why do you think you are benefiting from international trade?

1. Wider choice of consumption goods
2. Cheaper products available
3. Higher quality products available
4. It is good for the European economy
5. It creates jobs

QD5. Why do you think you are benefiting from international trade?*

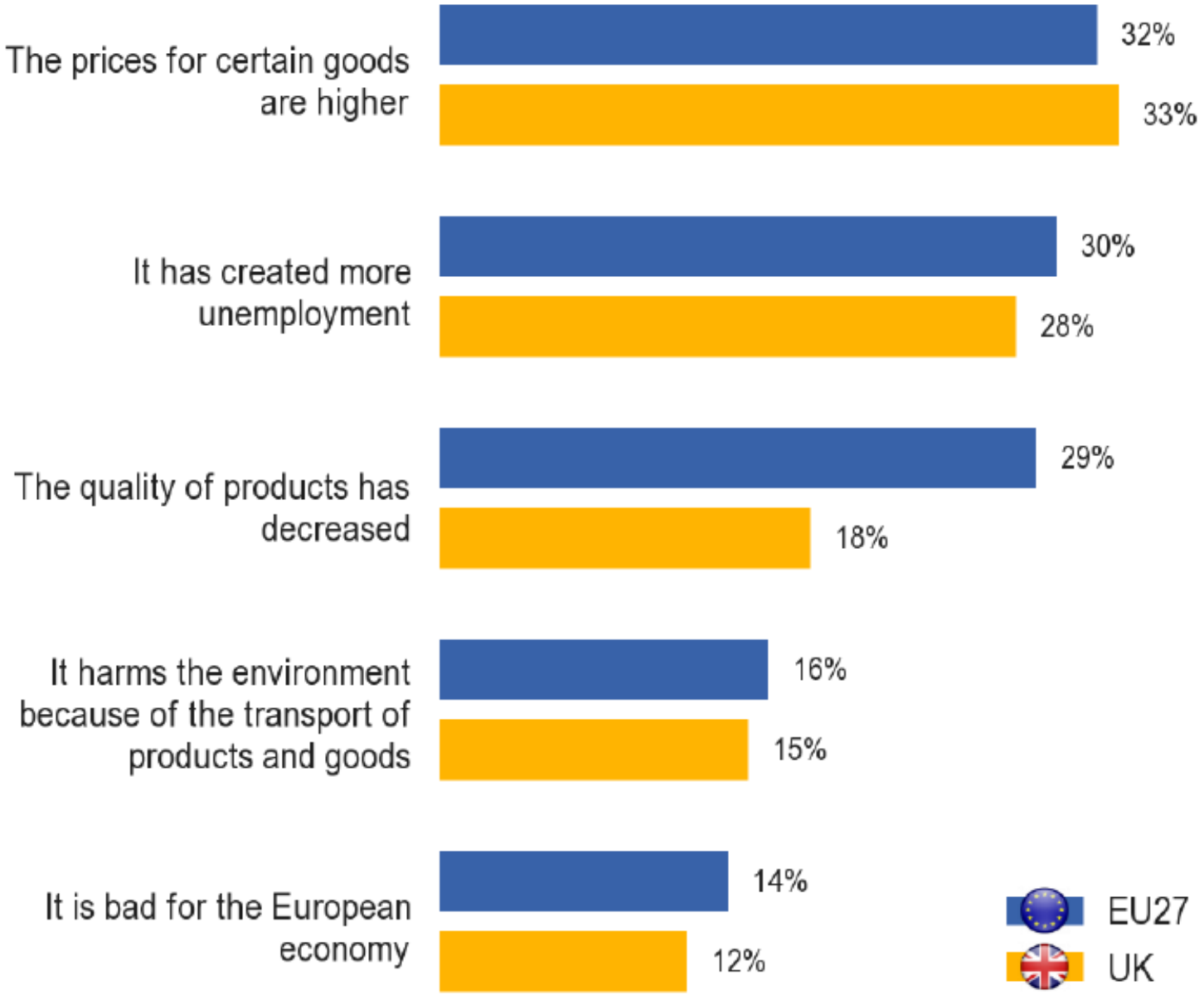


Source: Eurobarometer (2010)

Why do you think you are NOT benefiting from international trade?

1. Higher prices
2. Higher unemployment
3. Lower goods' quality
4. It is bad for the European economy
5. It has a negative effect on the environment

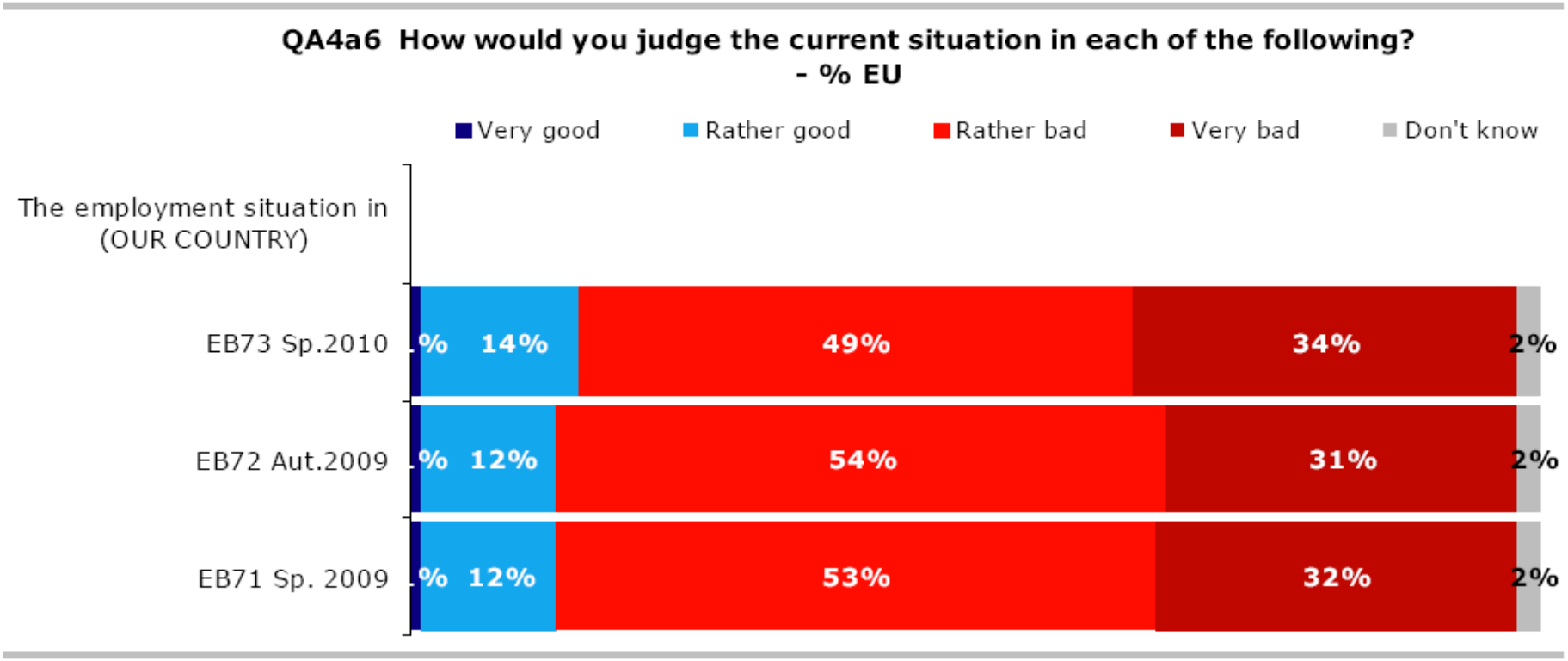
QD6. Why do you think you are not benefiting from international trade?*



Source: Eurobarometer (2010)

It’s all about jobs, jobs, jobs...

Europeans are feeling very pessimistic about their labour market prospects

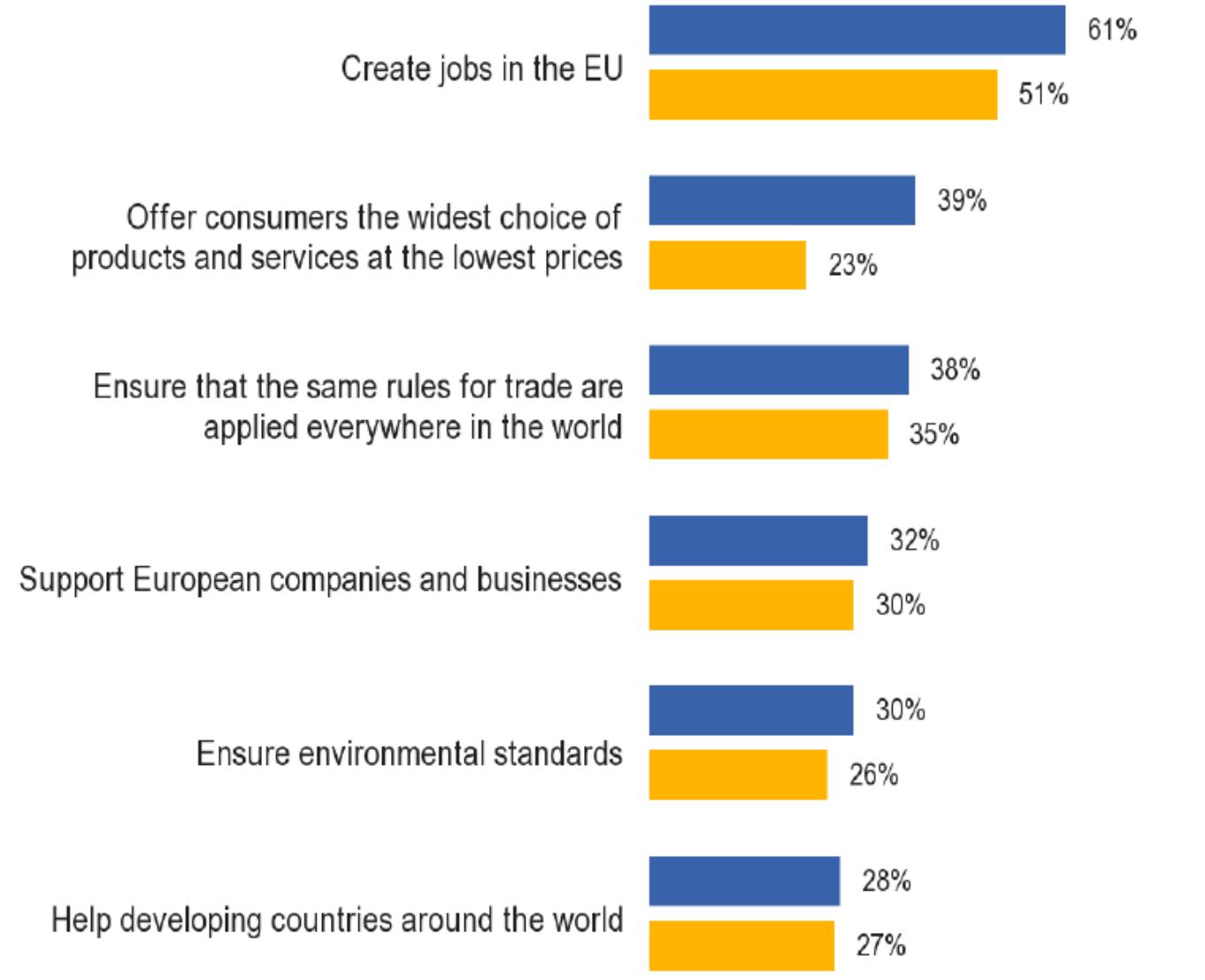


Source: Eurobarometer (2010)

Have you heard about the EU-China Bra war of 2005?

"Lift and Separate"

QD8T. In your opinion, what should be the main priorities of European Union's trade policy for the years to come? Firstly? And then?



Source: Eurobarometer (2010)

What do Economists have to say?

- Why do we engage in trade with other countries?
- Gains from trade due to **comparative advantage**
- Hecksher-Ohlin-Samuelson (2x2x2) model:
  - **2 factors of production:** skilled and unskilled labour
  - **2 countries:** UK (skilled labour-abundant) and China (unskilled labour-abundant)
  - **2 industries:** textiles and cars
  - Production of textiles is unskilled labour-intensive; production of cars is skill-intensive
  - Workers can move costlessly between industries
  - Perfect competition in product and labour markets

- **"All models are false but some models are useful"**

What happens when the UK and China start to trade?

1. **Before opening to trade:** cars are relatively cheap in the UK; conversely, textiles are relatively cheap in the China
2. **After opening up to trade:** consumers in the UK have the incentive to buy textiles from China
3. Demand for UK's textiles ↓ whereas demand for UK's cars ↑
4. Production of cars in the UK ↑
5. And since they require more skilled workers → demand for skilled workers in the UK ↑
6. Wages in the UK: skilled workers ↑

   unskilled workers ↓

The Stolper-Samuelson Theorem (1941)

- The relatively abundant factor gains from trade, and the scarce factor losses from trade

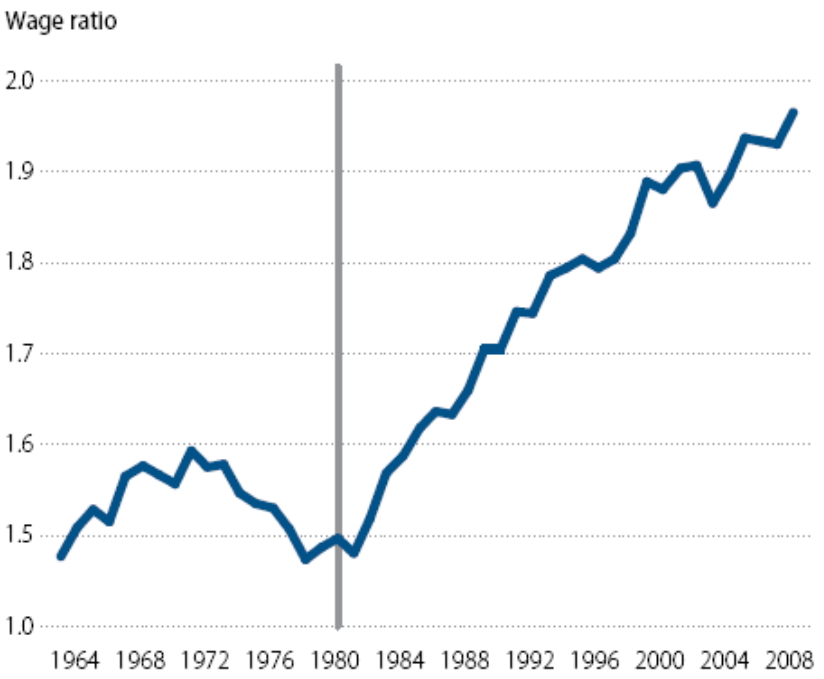
- In our example, skilled workers in the UK see their real wages ↑ while the real wages for unskilled workers ↓

Do we see this pattern in the data?

- If skill-abundant countries (e.g. UK, US, EU,...) trade more with low-skill abundant countries (e.g. China, India, Brazil,...) we should observe skilled workers in skill-abundant countries benefiting from globalisation

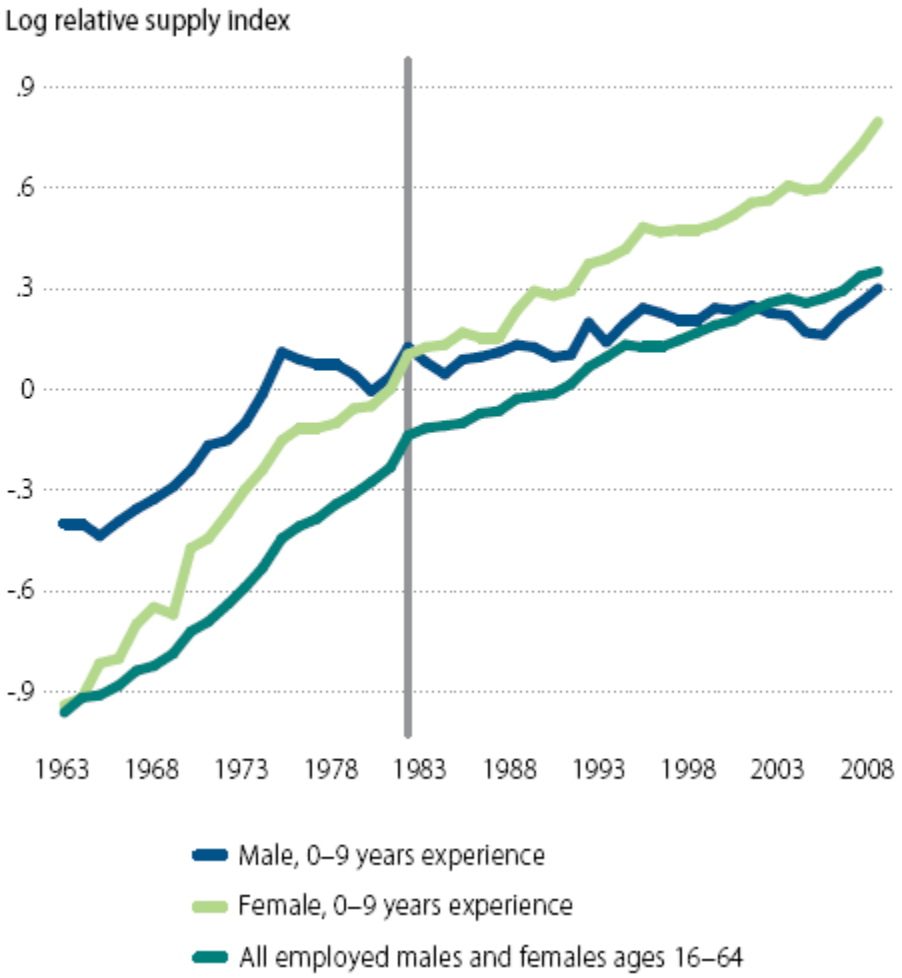
FIGURE 10

College degree vs. high school diploma weekly wage ratio, 1963–2008

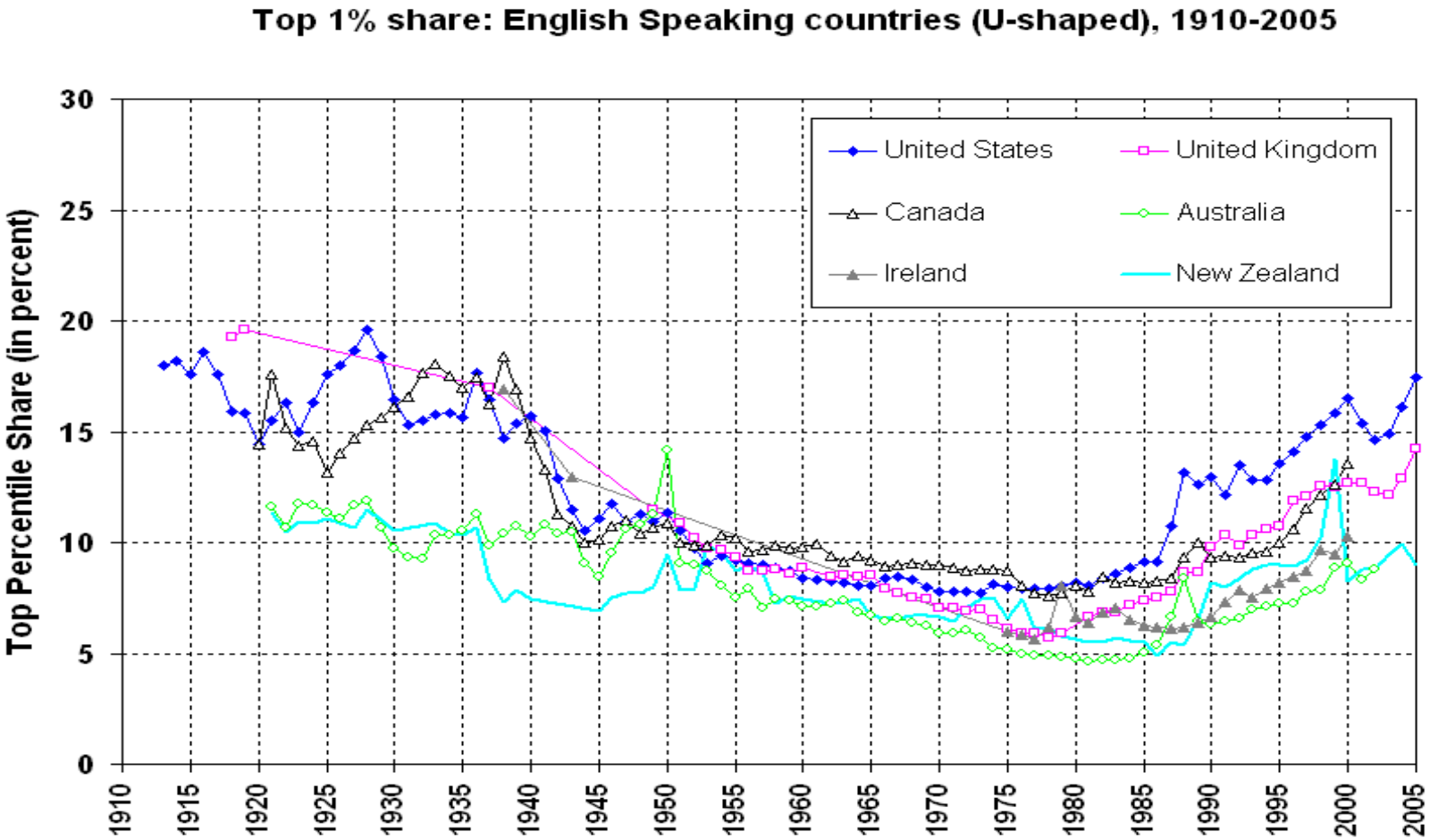


Even though the relative supply of skilled workers has increased constantly over the last 50 years...

College degree vs. high school diploma log relative supply, 1963–2008



Other measures of inequality exhibit a similar pattern in other developed countries



Source: Atkinson, Picketty and Saez (2009)

Some issues...

- If globalisation is playing a major role in explaining the recent increase in inequality, we should also observe inequality falling in low-skill abundant countries

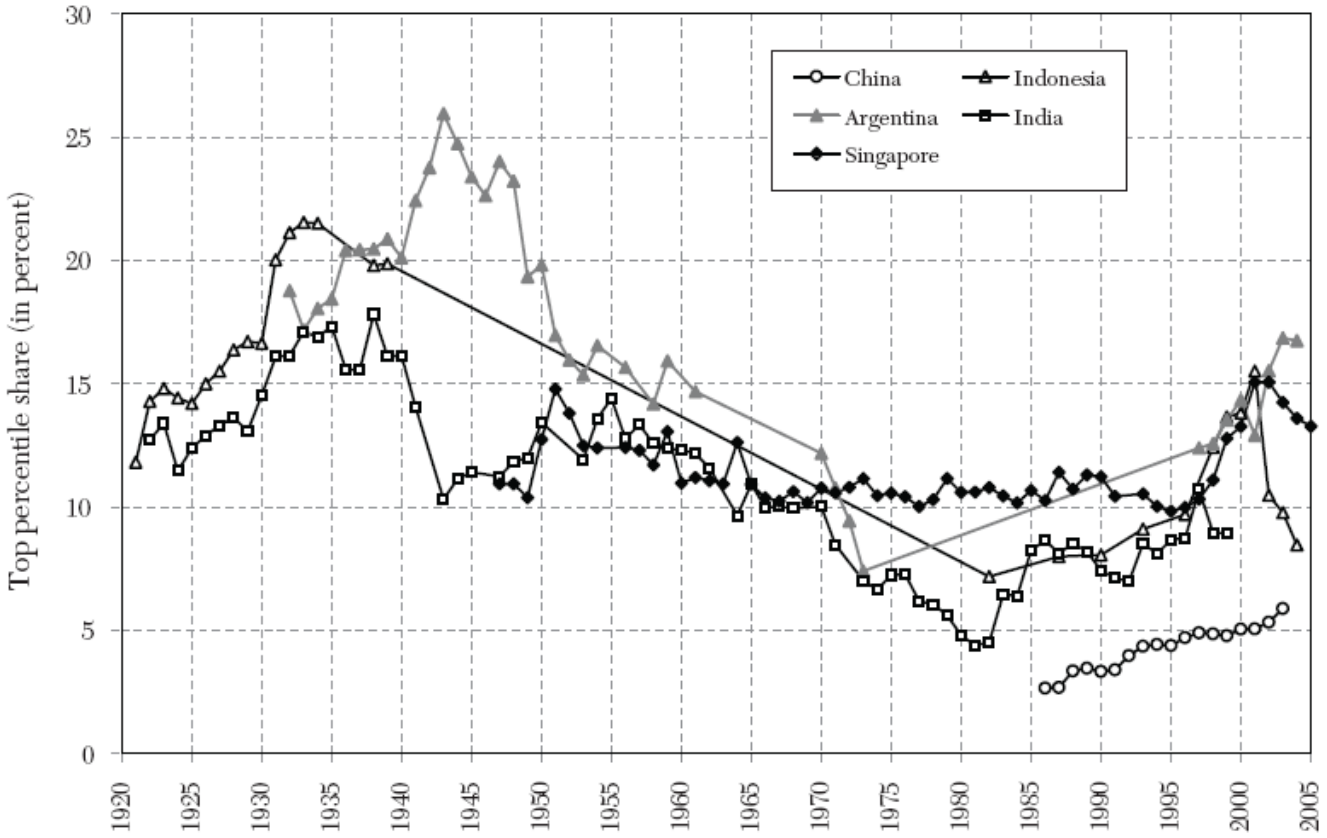
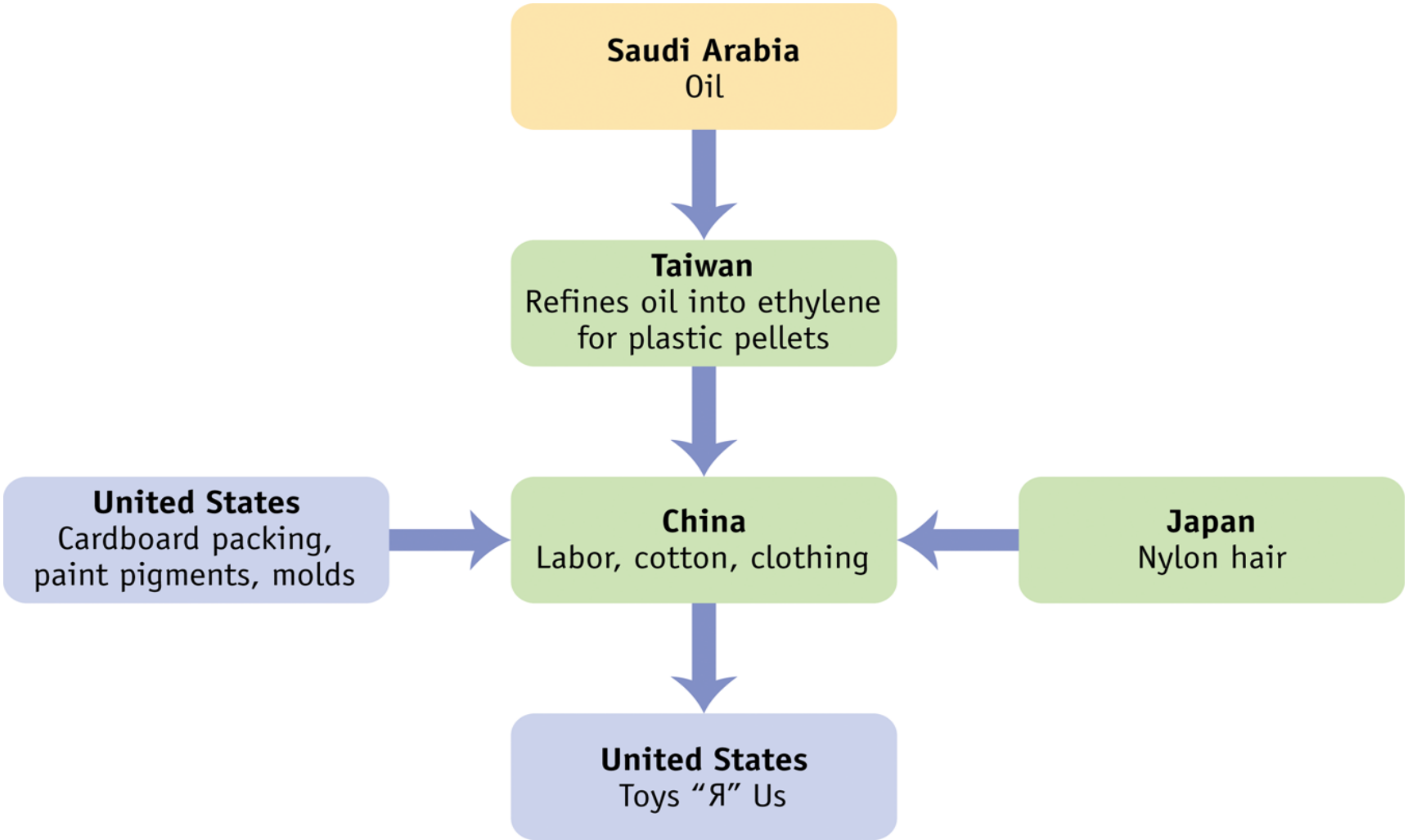


Figure 11. Top 1 Percent Share: Developing Countries, 1920–2005

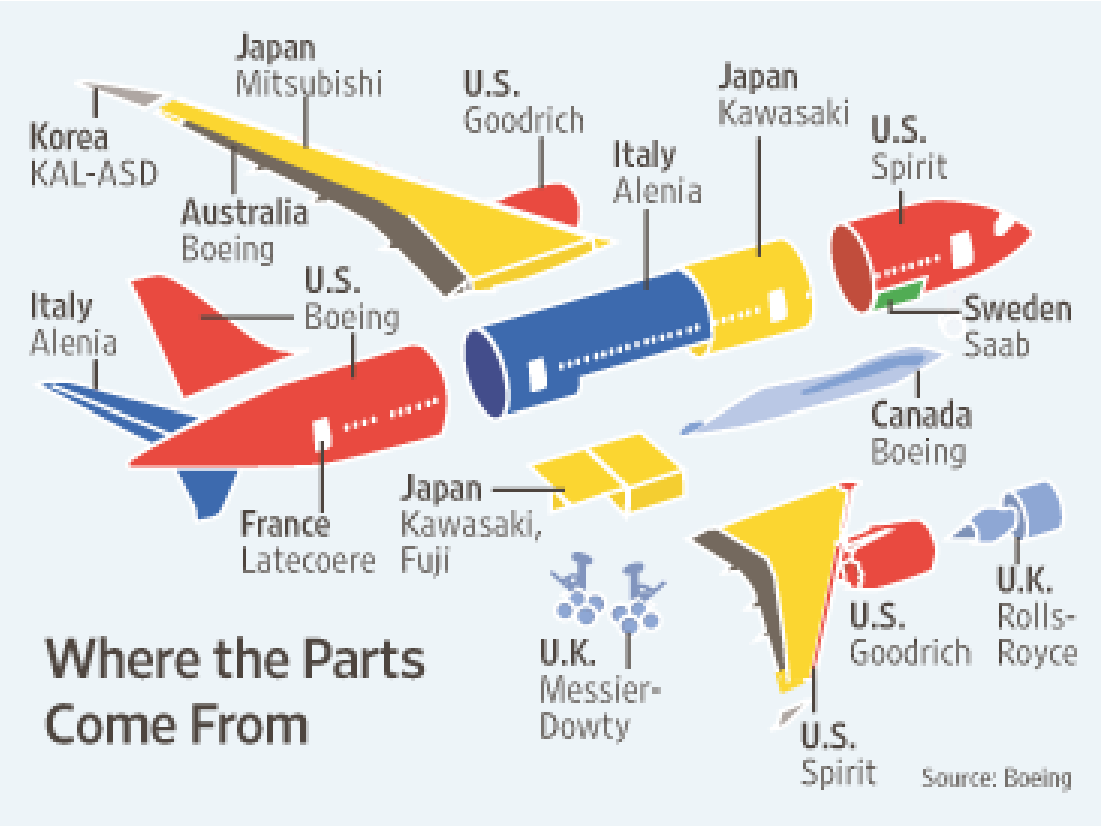
Source: Atkinson and Picketty (2007, 2010).

There is a big element missing in the H-O-S analysis...

- The **Barbie doll!**



Or a Boeing plane…



Or an Iphone, a BMW, a sweatshirt,....

Adam Smith's pin factory

At a global level!

Offshoring: the next industrial revolution?

- Migration of jobs, but not the people who perform them, from rich countries to poor ones

- Instead of thinking about goods we need to focus on tasks: design, manufacturing, costumer service, accounting,...
- More and more **tasks** can be traded across long distances

Jobs as a collection of tasks

- Jobs usually involve performing a number of tasks with different skill input

Jobs as a collection of tasks

- **Routine Cognitive Tasks**: filling forms; screening mortgage applications
- **Non-Routine Cognitive Tasks (Expert Thinking)**: practice of law and medicine; scientific research; use of architecting software; managing complex organizations; diagnosing tough auto repair problems.
- **Routine Manual Tasks**: all types of assembly line jobs and the counting and packaging pills into containers.
- **Non-Routine Manual Tasks**: driving a truck or taxi; cleaning a building; gardening and serving as a health care aide.
- **Complex Communication**: a manager motivating the people whose work she supervises; an economics teacher explaining how globalisation works and an engineer describing why a new design for a microprocessor is an advance over previous designs.

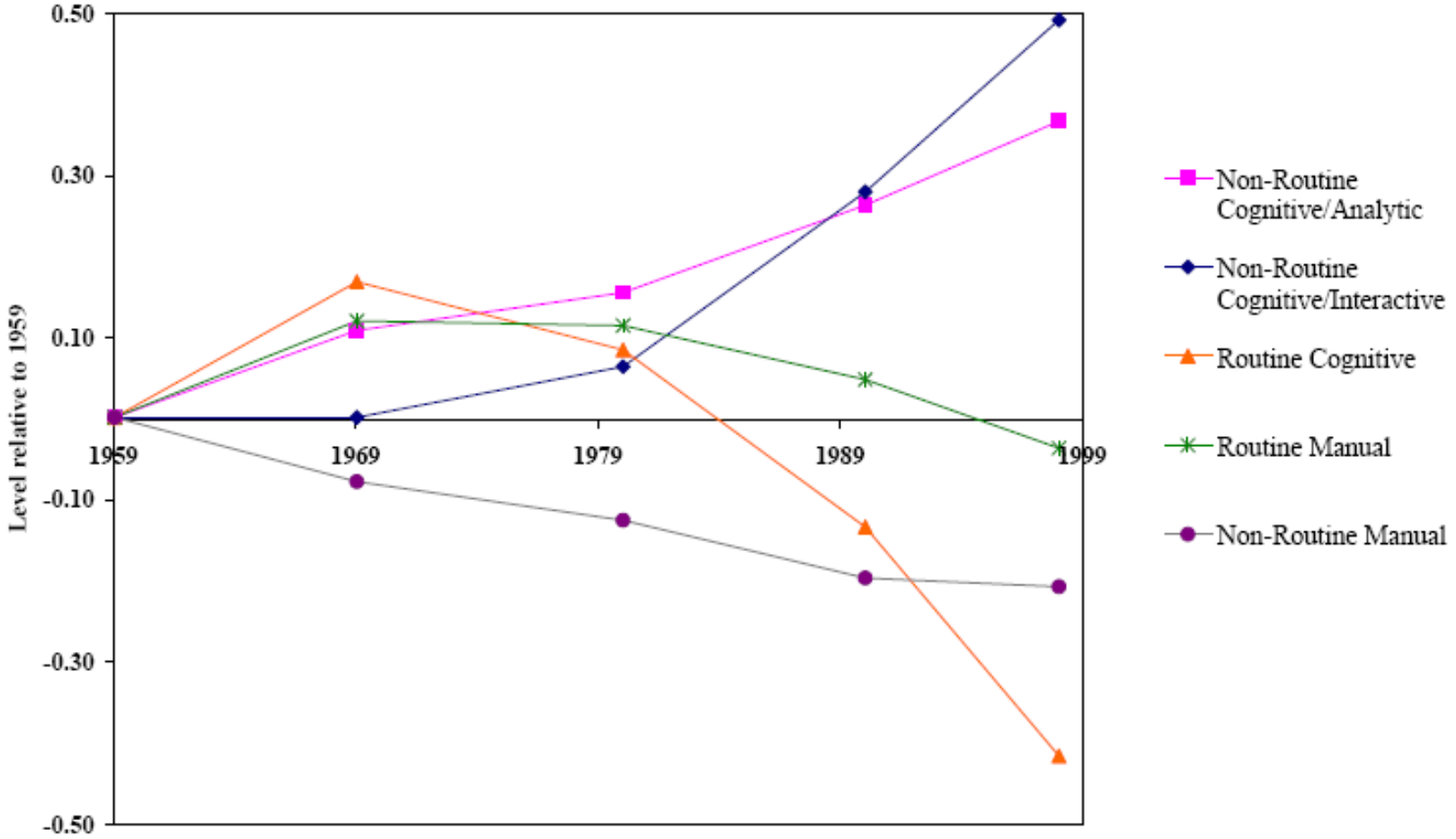
Some examples of occupations with high and low routine intensity

Appendix Table 2. Rankings of Occupations with Highest and Lowest Routine Intensity

A. Occupations with Highest RTI Scores	B. Low-Skill Occupations with Lowest RTI Scores	C. High-Skill Occupations with Lowest RTI Scores
1 Butchers & meat cutters	1 Bus drivers	1 Fire fighting, prevention & inspection
2 Secretaries & stenographers	2 Taxi cab drivers & chauffeurs	2 Police & detectives, public service
3 Payroll & timekeeping clerks	3 Waiters & waitresses*	3 Primary school teachers
4 Bank tellers	4 Truck, delivery, & tractor drivers	4 Managers of properties & real estate
5 File clerks	5 Door-to-door/street sales, news vendors	5 Secondary school teachers
6 Cashiers	6 Carpenters	6 Electrical engineers
7 Typists	7 Telecom & line installers & repairers	7 Physicians
8 Pharmacists	8 Housekeepers, maids, butlers & cleaners*	8 Computer systems analysts & scientists
9 Bookkeepers, accounding clerks	9 Health & nursing aides*	9 Civil engineers
10 Postal clerks, except mail carriers	10 Electricians	10 Industrial engineers

Average content of routine and non-routine tasks

Figure 1. Economy-Wide Measures of Routine and Non-Routine Task Input:
1959 - 1998 (1959 = 0)



What jobs are more offshorable?

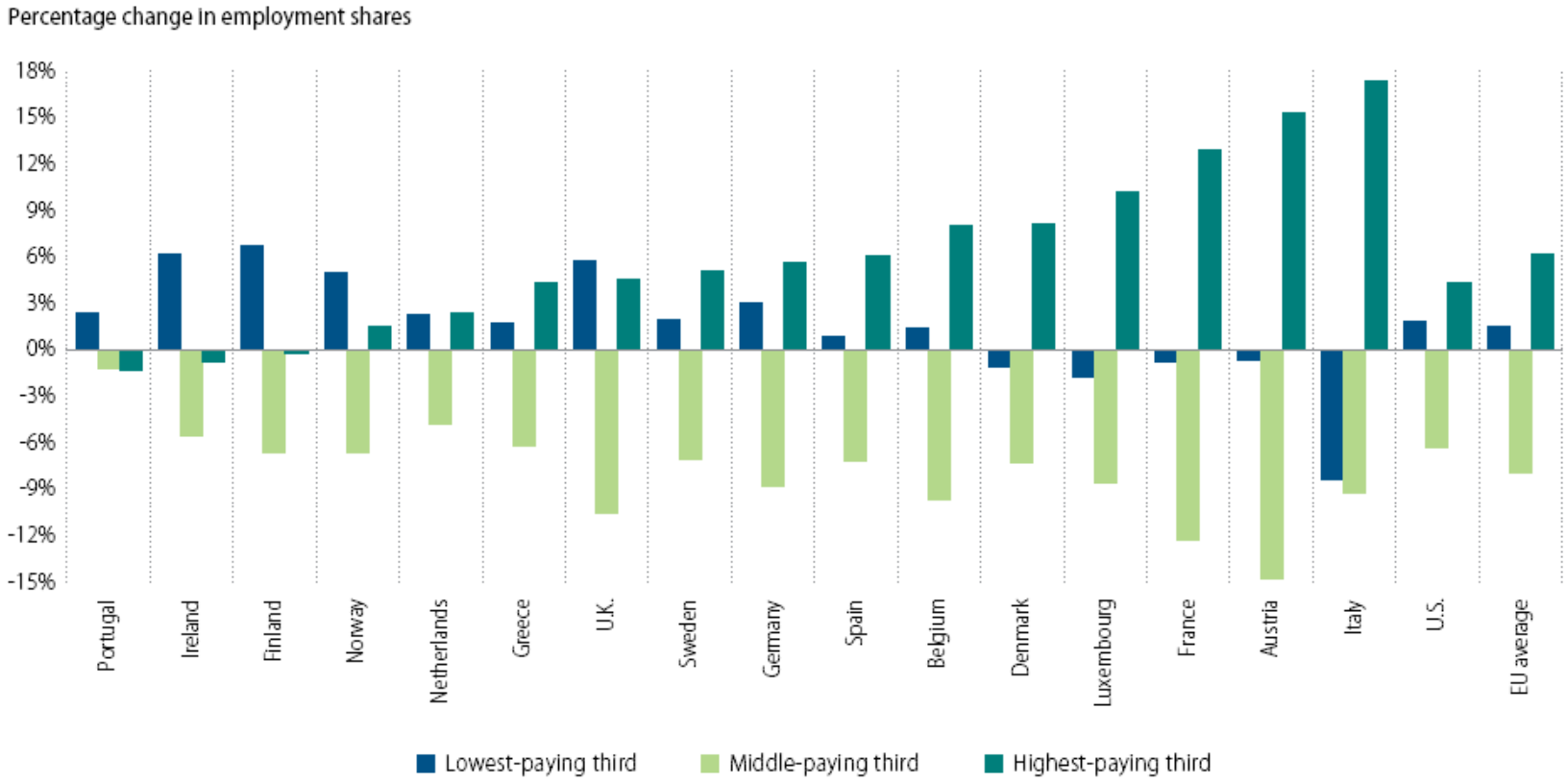
Occupation	Offshorability
Computer programmers	100
Data entry keyers	100
Mathematicians	96
Telemarketers	95
⋮	⋮
Multimedia artists and animators	87
Graphic designers	86
Financial managers	75
Fashion designers	73
⋮	⋮
Aerospace engineers	37
Pharmacy technicians	32
Architects	25
Postal service mail sorters	25

Source: Blinder (2007)

The squeezed middle...

FIGURE 6

Change in employment shares by occupation in 16 European countries
Occupations grouped by wage tercile: Low, middle, high, 1993–2006

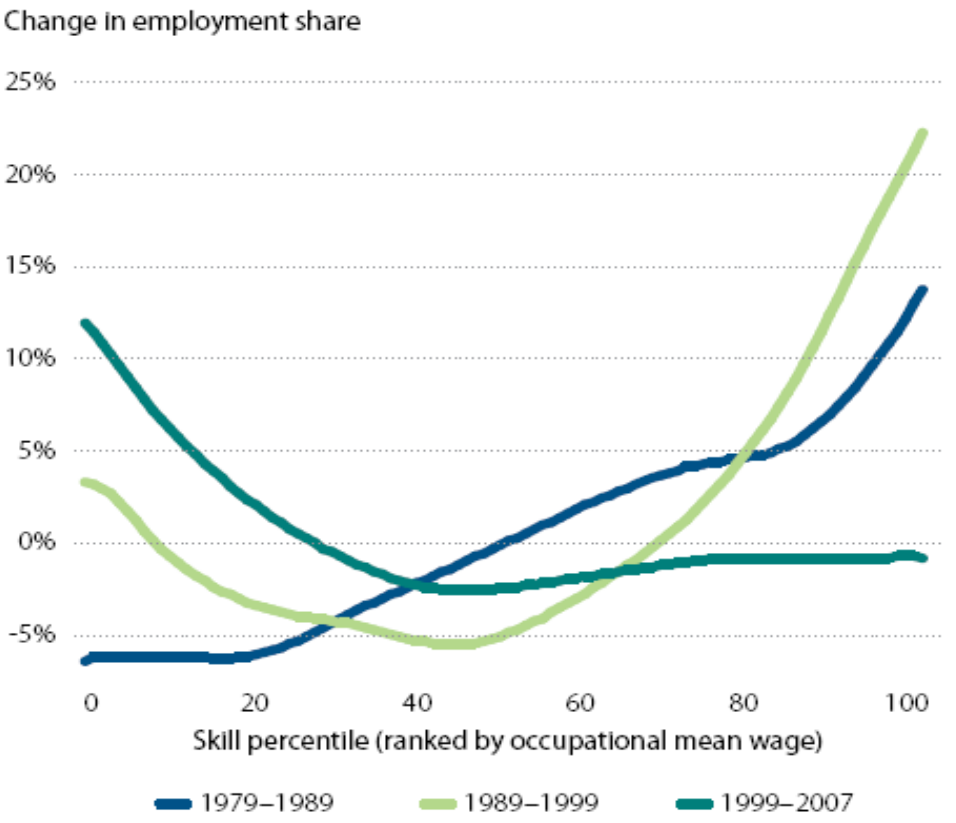


Source: Data on EU employment are from from Goos, Manning and Salomons, 2009a.

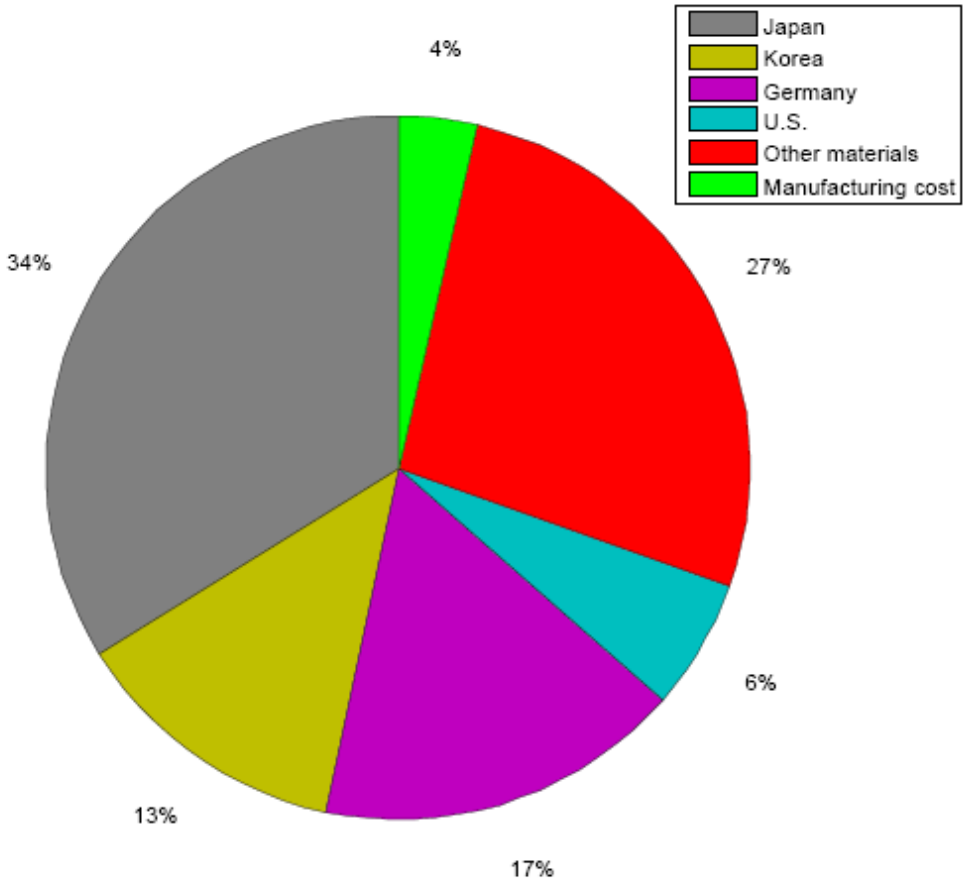
Are we really living in a “knowledge” economy?

FIGURE 1

Smoothed changes in employment by occupational skill percentile, 1979–2007



It’s not all doom and gloom: making an Iphone 3G



Chinese Iphone 3G exports to U.S. (2009) = 2,022 millions USD

Share of Chinese value-added = 3.6%

In conclusion

- The spread of offshoring is blurring the lines of comparative advantage as we knew them
- This has made identifying the winners and losers from globalisation a very complicated, but truly exciting, problem to tackle
- What we need to understand is that trying to stop globalisation is like trying to stop technology as they are both intimately intertwined

- Very nice (and short) video on how offshoring is affecting employment in the U.S.