Discussion of *Waddle* on Trade and Inequality, *Lilly* on Temporary Labor Mobility

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*Selected Paper prepared for presentation at the International Agricultural Trade Research Consortium’s (IATRC’s) 2017 Annual Meeting: Globalization Adrift, December 3-5, 2017, Washington, DC.*

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Discussion of: 
*Waddle* on trade & inequality

*Lilly* on temporary labor mobility

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A important question of this theme day is *What is causing the discontent with globalization?*

- Certainly one of the drivers comes from labor markets, and *those left behind* with lower skill levels and facing potential job losses and reduced incomes

- The response from informed observers and *economists* is that job losses are resulting from technological change and not from trade liberalization
  - Uncomfortable truth is that *modern trade theory* links technology to trade predicting: *who will* make it over the *productivity hurdle* and export (relatively more capital- and skilled labor-intensive, and pay higher wages) ; and *who will not*.
  - Nice chain of causality (technology ⇒ job losses ) ... is muddied

- So it is useful to look at trade and *skilled wage premium* to help understand how trade liberalization affects perceptions of inequality and ultimately *protectionist political outcomes*
Linking the Session Papers

A major unsolved **puzzle** of international economics: *H-O via Stopler-Samuelson* predicts that all countries should see a rise in the return to their abundant factor: skilled labor in developed countries and unskilled labor in developing markets

- Large body of empirical work points to skill premiums increasing in LDCs
- Several recent papers have addressed the paper including Andrea

\[
\frac{w^H}{w^L} = \frac{\theta_i}{1-\theta_i} \left(\frac{h_{ji}}{l_{ji}}\right)^{-1/\sigma}
\]

Specialize in \( l \) intensive \( \rightarrow \)

\[
\frac{w^H}{w^L} \downarrow
\]

**Waddle:**

\[
\frac{w^H}{w^L} = H-O * (1 - \alpha) \left(\frac{z_{ji}}{h_{ji}}\right)^{\frac{\alpha}{\sigma-1}}
\]

**Lilly:**

Labor mobility agreements

- High skilled: essential personnel, intra-company transfers, investors, and I.P.
- Essential to service value chain

**Strong complements**

\( Z_{ji} \equiv \text{Technology capital} \)

- Stock of ideas (techniques)
-Introduced thru value chain

Agriculture ????
Waddle: Skilled wage premium

Whether $H-0$ effect ($\frac{w_H}{w_L} \downarrow$) or relative $h$ demand ($\frac{w_H}{w_L} \uparrow$) effect dominates determines wage inequality which is driven by Mexican adoption decisions (rapid) & US investment channels (gradual)

• Initial jump in Mex. skill premium due to Mex. adoption, what if temporary labor mobility had been restricted slowing the adoption channel for $Z_{u,y}$?
• Lax protection IP rights in Mexico would have same effect
• ↑ Mex. skill premium happened as there was an electoral shift from PRI (Zedillo) to PAN (Fox) ... coincidence?
• Retrenchment of trade costs (NAFTA) works through a very small effect on the investment channel ⇒ very small decrease in skill premium ⇒ small reduction in inequality
  – Doesn’t placate the Bannonites or Lopez Obrador
Lilly: Labor mobility

- Most of RTA labor mobility provisions involve skilled labor
- Ag. uses less skilled labor: *Canada Temporary Foreign Worker Program*

<table>
<thead>
<tr>
<th>Share of Participants</th>
<th>Avg 09-14</th>
<th>2015</th>
</tr>
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<tbody>
<tr>
<td>High wage</td>
<td>27%</td>
<td>24%</td>
</tr>
<tr>
<td>Other</td>
<td>44%</td>
<td>17%</td>
</tr>
<tr>
<td>Primary Ag</td>
<td>29%</td>
<td>59%</td>
</tr>
</tbody>
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- Extensions from GATS (95) to TPP
  - Bus. Vis. & ICTs → Investors → Family members → no need-tests for Pros
  - Largely non-traded sectors
  - Export oriented → Unlikely to have an effect on wages or a skills premium
  - Answers skill shortage (problems after 2014 reform)
  - Missed opportunity but not sure what is meant by more ambitious commitments?
  - We don’t yet fully know the value of services embedded in goods.

- Why are temporary entry provisions in RTAs so strongly resisted in the US but encouraged in Canada
  - Canadians have too much geography and not enough human resources
  - Immigration is too sensitive for USTR to be involved