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

James Rude

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Discussion of:
Waddle on trade & inequality
Lilly on temporary labor mobility

James Rude
University of Alberta

Connections: Session ↔ T-Day/Author ↔ Author

- An 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 \Rightarrow job losses) ... is muddled
- 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 puzzle including Andrea

H-O: $\frac{w^H}{w^L} = \frac{\theta_i}{1-\theta_i} \left(\frac{h_{ji}}{l_{ji}}\right)^{-1/\sigma}$ specialize in l intensive $\rightarrow \frac{w^H}{w^L} \downarrow$

Waddle:

$$\frac{w^H}{w^L} = H-O * \underbrace{\left(1 - \alpha\right) \left(\frac{Z_{ji}}{h_{ji}}\right)^{\alpha \frac{\sigma-1}{\sigma}}}_{\text{Relative demand for high skilled labor}}$$

$$\left(1 - \alpha\right) \left(\frac{Z_{ji}}{h_{ji}}\right)^{\alpha \frac{\sigma-1}{\sigma}}$$

Relative demand for high skilled labor



$Z_{ji} \equiv$ Technology capital

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

Lilly:

Labor mobility agreements

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

Strong complements

Agriculture ?????

Waddle: Skilled wage premium

Whether *H-O 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
- \uparrow 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 \Rightarrow very small decrease in skill premium \Rightarrow small reduction in inequality
 - Doesn't placate the Bannonites or Lopez Obrador

Lilly: Labor mobility

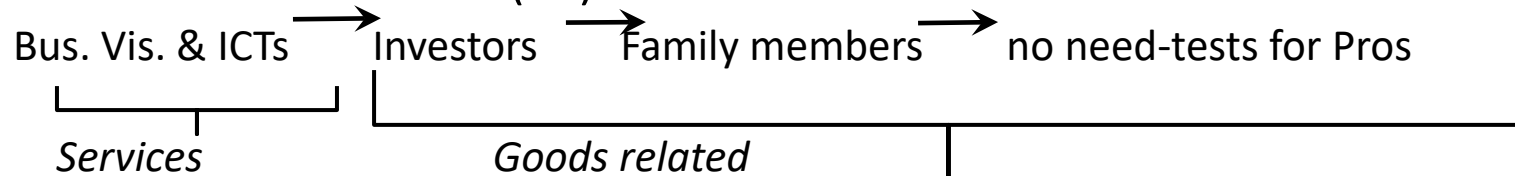
- Most of RTA labor mobility provisions involve skilled labor
- Ag. uses less skilled labor: *Canada Temporary Foreign Worker Program*

	share of participants	
	Avg 09-14	2015
High wage	27%	24%
Other	44%	17%
Primary Ag	29%	59%

Largely non-traded sectors

Export oriented → Unlikely to have an effect on wages or a skills premium
Answers skill shortage (problems after 2014 reform)

- Extensions from GATS (95) to TPP



– 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