

## Helping workers to navigate in "globalised" labour markets

**How many workers lose their jobs because of international trade?**

**Do they find new jobs easily?**

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### Introduction

Fears that "globalisation" implies increasing job losses and lower wages are an important source of popular ambivalence towards the increasingly open character of OECD economies. Although such concerns are not new, recent developments appear to have heightened workers' apprehensions that rising trade competition threatens their jobs, wages and employment conditions, particularly in the higher-wage OECD countries. Increased international sourcing of production activities – including the "offshoring" of some white-collar jobs in information technology (IT) and business services – has led some commentators to conclude that a large share of high-wage OECD workers will soon be in direct competition with workers in countries where wages are far lower. EU enlargement and the increasing integration of large, labour-surplus economies such as India and China into the world trading system also reinforce anxieties about "delocalisation" and "a race to the bottom".

But these negative concerns are often belied by the evidence. Trade and investment liberalisation, although disruptive for some workers' careers, is an important source of rising living standards for the overall population. Over the years OECD countries have achieved higher productivity and average real wages as they have increasingly specialised in producing goods and services in which they have a comparative advantage. Furthermore, increased openness to international trade and investment has not resulted in lower employment rates.

This policy brief reviews recent OECD analysis of the role of rising international economic integration in fuelling insecurity about employment and earnings for OECD workers, as well as what is known about best-practice policy responses. Trade-related job losses are best viewed as being part of a broader policy challenge, that of adjusting successfully to structural economic change. A recent OECD study emphasises that the drivers of structural economic change include not just international trade and investment, but also factors such as technological and demographic changes. Meeting this broader challenge requires policy responses that extend far beyond the labour-market programmes emphasised in this Policy Brief. Nonetheless, labour-market and social safety-net policies play a critical role. ■

### How many workers lose their jobs because of international trade?

If countries are to realise the potential gains from trade and investment liberalisation, labour and other factors of production must flow away from economic activities where they are relatively less efficient than their trading partners and towards activities where the economy enjoys comparative advantage. However, it can be hard for people to move between jobs, sectors and regions, and workers losing jobs in firms in import-competing sectors sometimes bear large adjustment costs.

Measuring just how many workers lose their jobs due to international trade and investment is a task riddled with difficulties, because the reasons for enterprise shut-downs and smaller-scale layoffs often involve several contributing factors. Trade may have weakened markets for locally produced goods, but other factors such as poor productivity or deficient management skills often play a more significant role in a company's performance. Nonetheless, job losses in manufacturing – especially those manufacturing industries, such as textiles and clothing and automobiles, where international competition is most intense – can be identified as being more often the result of international trade than job losses in other sectors.

Data for Canada, the United States and 14 European Union countries indicate that annual displacement rates (the number of workers experiencing permanent layoffs during a year as a share of average employment) are significantly higher in manufacturing than in the services sector. Among manufacturing industries, displacement rates also tend to be higher in the industries where international competition is most intense. If it is assumed that these differences correspond to the extra job displacement caused by international competition, it follows that international trade and investment account for between 4% and 17% of all permanent layoffs in these countries. Clearly, this calculation provides only an imprecise estimate. Nonetheless, it appears to be safe to conclude that international competition is an important, although far from the dominant, cause of job displacement. ■

### Do they find new jobs easily?

The policy implications of trade-related job losses will vary according to their effect on workers, including the amount of time they are jobless and whether they earn less in their new job. In fact, adjustment costs appear to be quite high for trade-displaced workers in both the United States and Europe and to exceed those borne by other job losers.

Figure 1 compares the adjustment costs borne by trade-displaced workers with those borne by other job losers, using the industry involved to determine whether a layoff is related to international competition. In the United States, 63% of workers displaced from jobs in high-international-competition manufacturing industries are re-employed approximately two years later, somewhat lower than the 67% re-employed rate for other manufacturing industries and the 69% rate for the service sector. Re-employment rates following displacement are considerably lower in Europe than in the United States, averaging 57% overall and just 52% in high-international-competition industries within manufacturing.

Workers displaced from high-import-competing industries in the United States experience an average pay cut of 13% once re-employed, with one-quarter experiencing earnings losses of 30% or more (Figure 1). Earnings losses are significantly smaller for workers displaced from jobs in the service sector, for whom the mean earnings loss is just 4%. Earnings losses on the new job tend to be smaller for job losers in Europe than in the United States and the share reporting wage losses of at least 30% is far smaller (8% versus 22%). Nonetheless, it is still the case that earnings evolve less favourably for job losers in manufacturing than for workers displaced from jobs in the service sector (no change on average versus a 7% increase). That American job losers should become re-employed more rapidly than their European counterparts, but also more often suffer sizeable pay cuts, is consistent with the widespread perception that labour markets are more flexible in the United States than in most European countries.

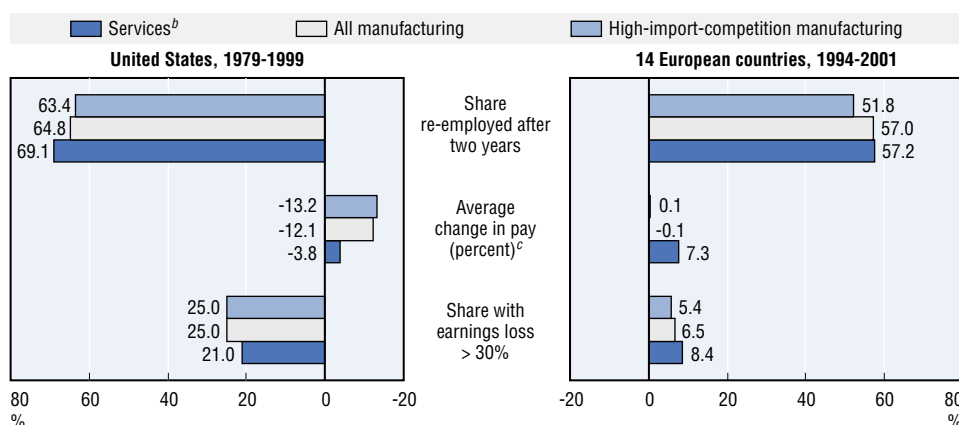
The international competition element of their layoffs does not seem to be the reason why workers displaced from jobs in high-international-competition industries suffer moderately higher average costs than other displaced workers. Compared with other job losers, displaced manufacturing workers in both Europe and the United States tend to be older, less educated and to have held the lost job for longer; all characteristics that are associated with above-average re-employment difficulties and larger earnings losses following re-employment. Trade-displaced workers are also more likely to have vocational skills specific to declining occupations and industries. ■

**What types of policies are required?**

Table 1 identifies a number of policies that have been adopted to lower trade-adjustment costs. The table also illustrates two strategic choices that must be made in assembling a coherent policy package to reduce adjustment costs borne by workers: finding good balances between: i) direct and indirect measures; and ii) general and targeted measures.

Figure 1.

**ADJUSTMENT COSTS ARE HIGHER FOR TRADE-DISPLACED WORKERS THAN FOR OTHER JOB LOSERS, BUT THE BIGGEST SOURCE OF EARNINGS LOSSES DIFFERS BETWEEN EUROPE AND THE UNITED STATES<sup>a</sup>**



a) Workers displaced from high-import-competition manufacturing (and, to a lesser extent, all manufacturing) serve as a proxy for trade-displaced workers.

b) Services and utilities for the United States.

c) Mean change in log wage (x100) between old and new jobs.

Source: OECD Employment Outlook, 2005, Chapter 1.

Both direct and indirect measures play important roles. The two key types of direct assistance to trade-displaced workers are active labour market programmes and unemployment benefits, which are discussed below. Indirect measures are also essential to provide an economic environment where workers displaced from declining sectors of the economy can find new jobs that make good use of their skills. The overarching need here is for general policies that strengthen job creation, upgrade work force skills and steer workers towards the jobs where they are most productive. Trade protectionism is another indirect measure for reducing adjustment costs, but is generally undesirable since it implies foregoing the potential gains from international trade and investment.

While there is a broad consensus that both direct and indirect measures are important, there is much less agreement about whether

**Table 1.**  
**MEASURES FOR REDUCING**  
**LABOUR-MARKET**  
**ADJUSTMENT COSTS**  
**ARISING FROM TRADE: A**  
**SIMPLE TAXONOMY**

Types of measures	Direct	Indirect
General	<p>Unemployment insurance and other income-replacement benefits available to all displaced workers and/or all unemployed under common rules</p> <p>Active labour market programmes available to all displaced workers and/or all unemployed under common rules</p>	<p>Macroeconomic policies conducive to strong growth and high employment</p> <p>Framework conditions for efficient reallocation of labour in response to structural change (e.g. adjustment-friendly employment protection legislation and wage-setting institutions)</p> <p>Education and life-long learning programmes to up-skill the work force</p> <p>Broad trade policy measures to restrict imports ("protectionism")</p>
Targeted	<p>Special adjustment assistance or supplementary income-replacement benefits to all trade-displaced workers</p> <p>Special adjustment assistance or supplementary income-replacement benefits to subgroups of trade-displaced workers (e.g. job losers in specific firms or sectors)</p>	<p>Industry redevelopment or rationalisation programmes (e.g. tax subsidies, public-private partnerships to develop new sources of comparative advantage)</p> <p>Local economic development</p> <p>Industry specific trade policy (e.g. trade safeguards or anti-dumping measures under WTO rules)</p>

targeted programmes that serve only trade-displaced workers have a legitimate role to play. In most instances, it is preferable to assist trade-displaced workers using general earnings-replacement and active labour market policies. However, experience in a number of OECD countries suggests that targeted programmes may sometimes have a role to play. For example, a dedicated programme may be better able to provide a co-ordinated package of services for workers affected by mass layoffs, especially, those occurring in declining sectors and regions where a protracted process of labour shedding can be foreseen. Equity or political economy arguments are also sometimes advanced as justification for targeted programmes, such as the idea that trade-displaced workers have a particular claim to public assistance on the grounds that their situation results from a deliberate policy decision to liberalise trade and investment flows which yields real income gains to society as a whole. If such arguments prevail, care should be taken to minimise the inefficiencies and inequities that can result from singling out trade-displaced workers for assistance beyond that offered to other workers encountering similar difficulties. ■

### What role should active labour market programmes play?

By helping trade-displaced workers to re-integrate into employment, active labour market programmes (ALMPs) can enhance the adaptive capacity of labour markets, even as they reduce the earnings losses experienced by job losers. Evaluations of ALMPs suggest that well-designed measures can be cost-effective, with job-search assistance being among the measures that perform best. These measures are likely to be more effective, the earlier they become available (see Box 1). Results are more mixed for evaluations of training and other intensive forms of assistance. This suggests that care should be exercised in targeting more intensive measures to those workers who will benefit most from them.

In fact, the situation is quite complicated as regards training. From an economy-wide perspective, successful adaptation to changing trade and FDI patterns requires that labour flow from declining to expanding industries. This suggests that workers displaced from declining industries should be encouraged to direct their job search towards expanding industries and offered the training necessary for them to qualify for those jobs. However, this may not be a reasonable approach from the worker's perspective. High labour turnover rates mean that there is considerable hiring even in declining industries. In fact, the majority of displaced manufacturing workers find new jobs in this same sector and earnings losses are significantly smaller for workers finding a new job in the same industry. It makes good sense for some, particularly older, trade-displaced workers to search for new jobs in the same industry, where they can make good use of their experience and skills. Nonetheless, intensive services should be available to those at high risk of prolonged unemployment, including vocational training for those who are willing to invest in it and are expected to benefit. ■

**Should trade-displaced workers be compensated?**

Trade theorists often point out that the “winners” from trade and investment liberalisation could compensate the “losers” and still come out ahead. However, in the real world there are very few examples of such direct compensation. Instead, unemployment insurance (and other earnings-replacement benefits) play an important role in cushioning the income losses that result from trade-related job displacement, thereby leading to a more even distribution of the benefits and costs of international economic integration. These benefit schemes may also provide job losers with the economic wherewithal to search for a new job that makes good use of their skills or to undertake further training to qualify for existing job vacancies. However, inefficiencies might also result, since unemployment benefits tend to blunt incentives for trade-displaced workers to find a new job rapidly.

Disincentives may be particularly strong for trade-displaced workers whose job experience and skills are a poor match for the available jobs. Typically, such workers will have to accept a significant pay cut to become re-employed. In such instances, unemployment benefit payments that may appear modest, when compared to previous earnings, may be much higher compared to *prospective* earnings and thus discourage taking a new job. This suggests that policy makers may face a difficult trade-off between providing adequate benefits and preserving incentives to find work.

Wage insurance schemes, such as those recently introduced in France, Germany and the United States, may represent a useful supplement to conventional unemployment benefits for compensating trade-displaced workers. Wage insurance pays a displaced worker, who accepts a new job at a lower wage, an earnings subsidy that replaces a fraction of the difference between earnings on the old and new jobs. For example, the German and US schemes replace 50% of the wage gap (up to

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**Box 1.**  
**WHAT ROLE CAN PROACTIVE MEASURES PLAY?**

The job losses caused by trade shocks are sometimes sufficiently predictable to allow adjustment assistance to begin in advance of workers' layoffs. In such cases, proactive measures can often make an important contribution to lowering adjustment costs. Employer-provided advance notice is typically a prerequisite for implementing proactive measures. It is also of value in its own right for giving workers a head start in searching for a new job. Research in the United States has shown that displaced workers receiving advance notice spend less time unemployed than workers laid-off without any advance warning.

The positive impact of advanced notice in reducing adjustment costs may be enhanced if the notified workers are also offered job-search assistance or retraining during the notice period. Many OECD countries have “rapid-response” systems in place that are triggered by the announcement of a collective dismissal. Typically, employment office personnel are dispatched to firms where particularly damaging layoffs have been announced. In some cases, a temporary office of the Public Employment Service (PES) is established on the premises of the dismissing firm. Through these field offices, workers may access all of the services offered by the PES during the notice period.

certain maxima). These earnings top-ups may be time limited (e.g. the French and US schemes set a two-year limit) or restricted to certain job losers (e.g. the German and US schemes are limited to displaced workers at least 50 years of age). Whereas conventional unemployment benefits provide social insurance against the loss of earnings due to unemployment, wage insurance cushions income losses that persist after displaced workers are re-employed. As discussed above, these latter losses can be quite large.

OECD governments have too little experience with wage insurance programmes to evaluate their cost-effectiveness with any rigour. A pilot programme in Canada during the 1990s (the Earnings Supplement Project) showed that such schemes can speed re-employment, by making job losers more willing to accept jobs that pay somewhat less than their previous ones. However, the resulting savings in unemployment benefits were not large enough to fully offset the new spending on in-work benefits. ■

### What is the bottom line?

As a flashpoint for public anxieties concerning economic insecurity, the perceived impact of globalisation on OECD labour markets currently looms very large. Happily, recent OECD analysis indicates that the actual impact of international economic integration is unlikely to confirm the worst of these fears. Nonetheless, trade-related job displacement and the attendant adjustment difficulties represent a serious policy challenge. Familiar policy instruments, such as unemployment benefits and active labour market programmes, can significantly reduce the insecurity resulting from trade-related displacement by fostering re-integration into employment and cushioning the impact of earnings losses on family incomes.

Popular fears about job losses from globalisation suggest that there is still room to improve the adjustment assistance available to workers as they navigate in increasingly globalised labour markets. Greater use of proactive measures or innovative ideas, such as wage insurance, might help to better reconcile high adjustment capacities, at the level of firms and the overall labour market, with sustained "employability" and income security for individual members of a diverse and ageing labour force. Since international trade and investment are only one of the sources of employment and earnings insecurity for workers, it is also important to consider how assistance to trade-displaced workers can best be incorporated into an overall strategy for achieving high employment rates in the context of continuous structural economic change. ■

### For further information

For more information about this Policy Brief and OECD work on adjustment-assistance policies for trade-displaced workers, contact Paul Swaim, Email: [paul.swaim@oecd.org](mailto:paul.swaim@oecd.org) Tel.: [33 1] 45 24 19 77; or visit [www.oecd.org/els/employmentoutlook](http://www.oecd.org/els/employmentoutlook). ■



### For further reading

**Enhancing the Performance of the Services Sector**, OECD, 2005 (forthcoming)  
ISBN: 9264010297, €60, 290p.

Kongsrud, P.M. and I. Wanner (2005), **“The Impact of Structural Policies on Trade-related Adjustments and the Shift to Services”**, OECD Economics Department, Working Papers, No. 427, Paris.  
Available at: <http://www.oecd.org/dataoecd/49/29/20686301.HTM>

**OECD Employment Outlook**, OECD, 2005  
ISBN: 9264010459, €65, 280p.

**Trade and Structural Adjustment: Embracing Globalisation**, OECD, 2005 (forthcoming)  
ISBN: 9264010963, €60, 300p.

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