

**OECD Parliamentary Seminar
Innovation, Growth, Equity
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**OECD workers in the global economy –
increasingly vulnerable?
by**

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The globalisation paradox

- Economists emphasize the potential of globalisation to raise living standards
 - OECD Growth Study estimates a 10% increase in trade openness increases GDP per capita by around 4% in the OECD area
- Public opinion very concerned about implications of globalisation for workers
 - 2006 GMF poll for 7 OECD countries: about half the respondents believe that *“freer trade costs more jobs than it creates”*
 - The extent of the globalisation paradox differs across countries (USA & FRN > Canada > UK & CEECs)
- Understanding the nature of public concerns over globalisation should therefore be a key priority
 - Public support for freer trade and FDI cannot be taken for granted
 - Public may have something to teach economists and policy makers

Understanding and addressing the globalisation paradox

- What is special about the current phase of globalisation?
- How are OECD workers faring as labour markets become more global?
- How is globalisation affecting the functioning of OECD labour markets?
- How can policy-makers best address the globalisation paradox?

Part I:
What is special about the current
phase of globalisation?

The unprecedented scale of globalisation – 2 sources

- Integration of BIG emerging economies into the world economy
 - Over the past 15 years, the trade/GDP ratio grew by 50% in Russia, nearly doubled in China and more than doubled in Brazil and India
 - BRICs account for 45% of the world's labour supply compared to less than one fifth for the OECD as a whole
 - Hourly wages for Chinese employees in manufacturing = 3% of US level in 2002 – 2004 (BLS estimates).
- Expansion of international production networks – closely related to offshoring – allows for a finer international division of labour
 - Material offshoring has continued to expand in 13 out of 17 countries for which data are available during the period 1995-2000
 - One-in-five service jobs potentially offshorable (ICT), but actual levels remain modest
 - The very rapid growth of FDI is another indicator of the growing importance of international value chains

The unprecedented scale of globalisation – possible consequences

- Deepening of globalisation could intensify familiar problems
 - Adjustment costs for trade-displaced workers (unemployment spells and earnings losses upon re-employment)
 - Downward pressure on wages of unskilled workers
- Deepening of globalisation could have more pervasive impacts on labour market functioning
 - Increased employment and wage volatility
 - Average wage stagnation (exit option for employers erodes workers' bargaining power)
 - “Superstars” exploit global playing field

Part II:

How are OECD workers faring as labour markets become more global?

- Evidence is mixed concerning trends in jobs, job stability, the share of wages in national income, and earnings and income inequality

The reassuring news

- Aggregate employment rates have generally increased since the mid-1990s and are not systematically related to trade openness
- No apparent trend in job stability during the past several decades
- Real wage growth has continued in most countries and is not systematically related to trade openness

The worrying news: inequality

- Wage share down (workers not getting fair share?)
- Wage inequality up and some feed-through to family living standards/disposable income
- Very high earners/very rich
- NB – Mostly leave for Marco

Summary

- Globalisation continues to deepen in a context of rising employment and real wages ...
- ... no evident trend in job stability...
- ... but increasing earnings inequality and declining wage shares in most OECD countries
- Causal role for G or only a scapegoat?

Part III:

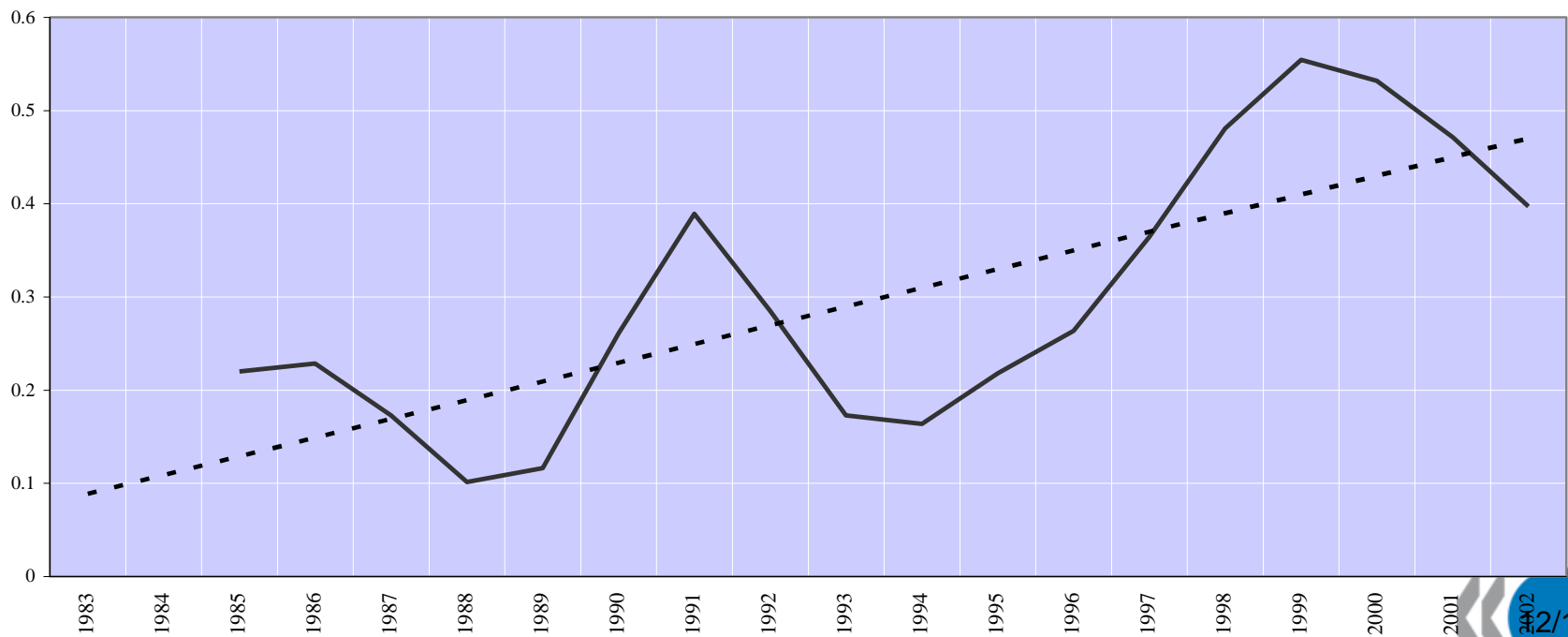
How is globalisation affecting the functioning of OECD labour markets?

- Evidence from cross-country analysis conducted by the OECD
 - Foreign competition – especially from non-OECD countries – induces changes in the sectoral pattern of specialisation and hence TD/insecurity
 - FC raises skill demands and hence earnings inequality
 - Offshoring = less job loss but more skill upgrading

Labour demand has become more responsive to shocks, as globalisation has deepened

- New OECD evidence for 12 countries & 20 industries shows a clear positive trend in the wage elasticity

Trend in the conditional wage elasticity of labour demand, 1980-2002



Part IV:
**How can policy-makers best address the
globalisation paradox?**

Bottom line

- Public ambivalence towards globalisation has some basis in reality
 - Deepening of trade is continuing to create new opportunities for efficiency gains...
 - ... but has also tended to increase earnings inequality and potential insecurity
- Be careful not to exaggerate the role of globalisation in creating vulnerabilities...
 - Difficult to disentangle the effects of trade and FDI from other factors, such as structural reforms and technological change
 - The right mix of domestic policies can prevent trade and FDI from becoming important sources of inequality and insecurity
- While addressing the real policy needs

Three priorities for policy

- Maximise gains from globalisation by seizing new opportunities for specialisation
 - Innovation (as this morning)
 - Reinforce the structural adjustment capacity of labour markets
- Prevent globalisation from being a source of insecurity
 - Help the TDs
 - Facilitate labour mobility without tears (e.g. portable pensions)
- Prevent excessive levels of inequality from emerging
 - Employability/skills
 - Redistribution/adapting SP systems to G (Marco)

Implications for general labour market policies

- Globalisation increases the urgency of developing a comprehensive policy strategy to assure that the benefits from globalisation are widely shared and political support for an open trading system sustained
 - Reconciles flexibility for firms with security for workers
 - Helps sustain high employment rates
 - Develops labour force skills
 - Provides a safety net for displaced workers
- The restated OECD Jobs Strategy is an important benchmark for such a strategy
 - Increased urgency of reforms, rather than new content?

Direct adjustment assistance for displaced workers is also required

- Transitional income support
 - Unemployment benefits are key
 - Familiar trade-off between adequacy and strong incentives for job losers to adjust to labour demand shifts
 - A role for wage insurance?
- Active labour market programmes
 - Job search assistance
 - Retraining and updating skills
- Any role for EGF-type targeting? (Too soon to say, but TAA not very encouraging)

Further reading

- OECD (2005), “Trade-adjustment costs in OECD labour market: a mountain or a molehill?”, *OECD Employment Outlook*, June.
- OECD (2007), “OECD Workers in the Global Economy: Increasingly Vulnerable?”, *OECD Employment Outlook*, June.
- OECD (2007), “OECD workers in the global economy: increasingly vulnerable? Further material”,
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- OECD (2007), “Globalisation, Jobs and Wages”, *OECD Policy Brief*, June.
- Hijzen, A. and P. Swaim (2007), “Does Offshoring Reduce Industry Employment?”, *National Institute Economic Review*, July.