Is globalization taking away jobs? An empirical assessment for advanced economies

Presentation for the Grenoble Post-Keynesian & Institutionalist Conference: Instability, Growth & Regulation

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1 Introduction
Outline

1. Introduction

2. Globalization and unemployment
Outline

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3. Descriptive statistics
Outline

1. Introduction
2. Globalization and unemployment
3. Descriptive statistics
4. The empirical model
5. Conclusions
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A common feature of these events was the division into opponents and supporters of globalization debating whether policies that enhance global links tend to destroy/export jobs or the other way around.
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A common feature of these events was the division into opponents and supporters of globalization debating whether policies that enhance global links tend to destroy/export jobs or the other way around.

Whether policy-makers are carrying out or proposing the ‘right’ policies to reduce unemployment when it comes to global economic links, is an empirical matter.
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Unemployment determinants

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- The existing literature is silent about the potential effects of globalization as an explanatory variable of unemployment.
- The stark increase in unemployment rates in OECD economies observed since the early eighties has been coupled with a drastic rise in globalization broadly defined.
- Optimistic economists and journalists highlight (only or mostly) the benefits of integrating markets.
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However, other opinion leaders have also denounced the downside of integrating markets.
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The downside of integrating markets

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Of the three definitions of this phenomenon, we focus on economic globalization.
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These competing theories are concerned with the link between employment and trade liberalization, rather than unemployment and globalization as such.
Capital account liberalization adversely impacts labor markets (e.g. raises unemployment) via terms of trade shocks, which may provoke currency appreciation.
Globalization and unemployment

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- Eatwell and Taylor (2000) argue that the structural changes that took place in world trade in the past four decades are associated with the increased mobility of capital.
- Jayadev (2007) reports that capital account openness has increased over time while at the same time labor shares across the globe have stagnated or fallen.
Globalization and unemployment
Offshoring and foreign direct investment

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In this story, the most developed economies specialize in the production of skill-intensive goods (criticized by Blinder).
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We distinguish three groups of countries:

1. Austria, Denmark, Japan, Netherlands, New Zealand, Norway, Switzerland and Sweden, with unemployment rate (u.r.) < 6.2%.

2. Australia, Belgium, Canada, Germany, the U.K. and the U.S., with u.r. between 6.2 and 9.2%.

3. Finland, France, Ireland, Italy, Portugal and Spain, with u.r. > 9.2%.
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## Descriptive statistics

### Unemployment and globalization indicators at the country level

<table>
<thead>
<tr>
<th>Country</th>
<th>Unemployment</th>
<th>Trade open</th>
<th>Capital open</th>
<th>FDI</th>
<th>China’s share</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Level Growth</td>
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</tr>
<tr>
<td>Australia</td>
<td>7.01 0.97</td>
<td>37.3 0.88</td>
<td>1.47 7.10</td>
<td>0.49 5.6</td>
<td>8.93 9.52</td>
</tr>
<tr>
<td>Austria</td>
<td>4.77 2.16</td>
<td>81.2 1.32</td>
<td>2.62 5.71</td>
<td>0.36 10.14</td>
<td>3.13 7.04</td>
</tr>
<tr>
<td>Belgium</td>
<td>8.41 -0.30</td>
<td>132.2 1.35</td>
<td>5.51 5.27</td>
<td>1.37 9.8</td>
<td>3.45 5.56</td>
</tr>
<tr>
<td>Canada</td>
<td>8.46 0.38</td>
<td>62.4 0.82</td>
<td>1.89 3.67</td>
<td>0.7 5.73</td>
<td>4.69 12.14</td>
</tr>
<tr>
<td>Denmark</td>
<td>6.16 0.38</td>
<td>79.9 1.16</td>
<td>2.57 6.23</td>
<td>0.47 9.34</td>
<td>3.23 10.41</td>
</tr>
<tr>
<td>Germany</td>
<td>7.85 -0.22</td>
<td>58.9 2.14</td>
<td>2.1 6.96</td>
<td>0.51 6.11</td>
<td>5.37 7.64</td>
</tr>
<tr>
<td>Finland</td>
<td>9.26 5.72</td>
<td>65.5 0.76</td>
<td>2.47 9.65</td>
<td>0.42 11.86</td>
<td>3.17 13.82</td>
</tr>
<tr>
<td>France</td>
<td>9.99 0.78</td>
<td>49.1 1.05</td>
<td>2.69 6.67</td>
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<td>3.57 9.88</td>
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<tr>
<td>Italy</td>
<td>9.29 1.86</td>
<td>45.7 0.91</td>
<td>1.45 6.01</td>
<td>0.21 8.6</td>
<td>3.1 9.13</td>
</tr>
<tr>
<td>Ireland</td>
<td>10.97 0.42</td>
<td>143 2.43</td>
<td>10.88 10.28</td>
<td>1.8 4.98</td>
<td>2.81 14.36</td>
</tr>
<tr>
<td>Japan</td>
<td>3.57 1.69</td>
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<td>Netherlands</td>
<td>6.09 -0.05</td>
<td>118.6 1.28</td>
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<td>3.61 11.56</td>
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<tr>
<td>New Zealand</td>
<td>5.93 2.66</td>
<td>58 -2.93</td>
<td>1.64 5.94</td>
<td>0.43 6.78</td>
<td>7.11 11.44</td>
</tr>
<tr>
<td>Norway</td>
<td>4.04 0.43</td>
<td>70.9 -0.28</td>
<td>2.1 5.98</td>
<td>0.41 6.72</td>
<td>3.89 12.46</td>
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<tr>
<td>Portugal</td>
<td>9.28 3.23</td>
<td>64.2 1.25</td>
<td>2.28 7.18</td>
<td>0.4 7.34</td>
<td>N/A N/A</td>
</tr>
<tr>
<td>Spain</td>
<td>16.72 1.53</td>
<td>48.1 1.95</td>
<td>1.66 6.91</td>
<td>0.42 10.44</td>
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<td>Sweden</td>
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<td>73 1.4</td>
<td>2.6 8.02</td>
<td>0.69 10.57</td>
<td>1.94 10.74</td>
</tr>
<tr>
<td>Switzerland</td>
<td>4.37 0.22</td>
<td>94.6 1.01</td>
<td>6.48 4.73</td>
<td>1.26 8.66</td>
<td>1.92 11.29</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>7.47 -1.59</td>
<td>51.9 0.58</td>
<td>5.91 6.58</td>
<td>0.66 4.68</td>
<td>3.84 11.89</td>
</tr>
<tr>
<td>United States</td>
<td>6.40 0.04</td>
<td>23 1.28</td>
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López, Reyes (IRD)  
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Capital account openness is the highest in Ireland, Switzerland, the U.K., Belgium and the Netherlands, and the lowest in Japan, U.S., Italy and Australia.
The empirical model

Model specification

The equation we are interested in is the following:

\[ U_{i,t} = \alpha_i + \beta U_{i,t-1} + \chi MACRO_{i,t} + \delta INST_{i,t} + \phi GLOB_{i,t} + \varepsilon_{i,t} \]
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Model results

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- Trade openness has a non-significant effect.
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We prefer to interpret our results as a clear sign that globalization has been oversold (Stiglitz, 2005). We propose a set of measures that are strongly based on the well-known Keynes' plan with, for example, capital controls.
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Thank you for your attention
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