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LSE Public Lecture

Trade and Inequality Revisited

Professor Paul Krugman

Princeton University

Professor Tony Venables

LSE, Chair

Trade and inequality, revisited

Paul Krugman

The NAFTA vote, 1993

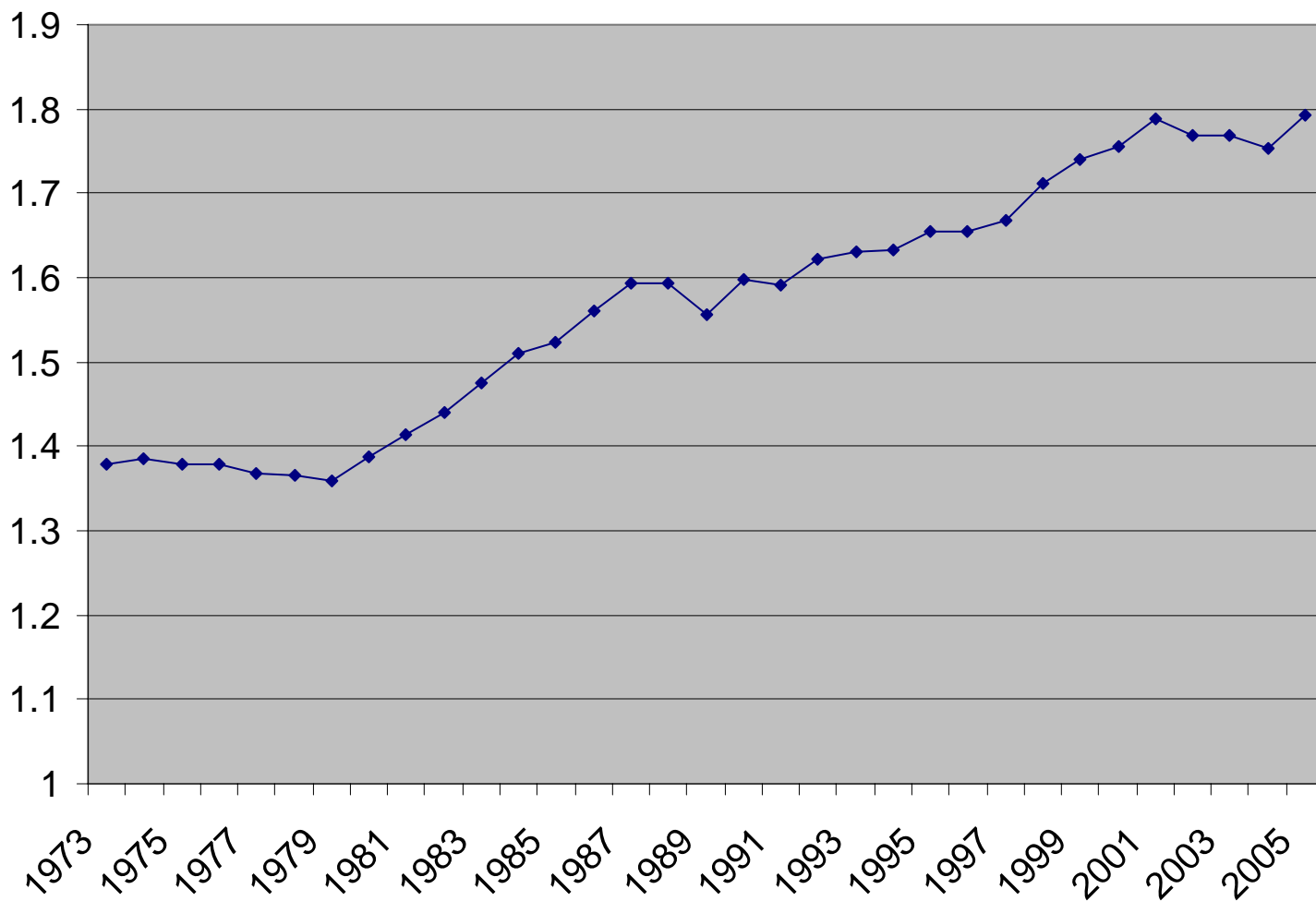
	Ayes	Noes
Democrats	102	156
Republicans	132	43

CAFTA VOTE, 2005

	<u>AYES</u>	<u>NOES</u>
REPUBLICAN	202	27
DEMOCRATIC	15	187
INDEPENDENT		1
TOTALS	217	215

The pact faces near-unanimous opposition by Democrats, who charge it fails to offer adequate labor protections. It also faces opposition or misgivings by Republicans from districts with large numbers of sugar producers, textile makers and other manufacturers - Marketwatch

College-high school wage ratio



From John Romalis, AER 2004

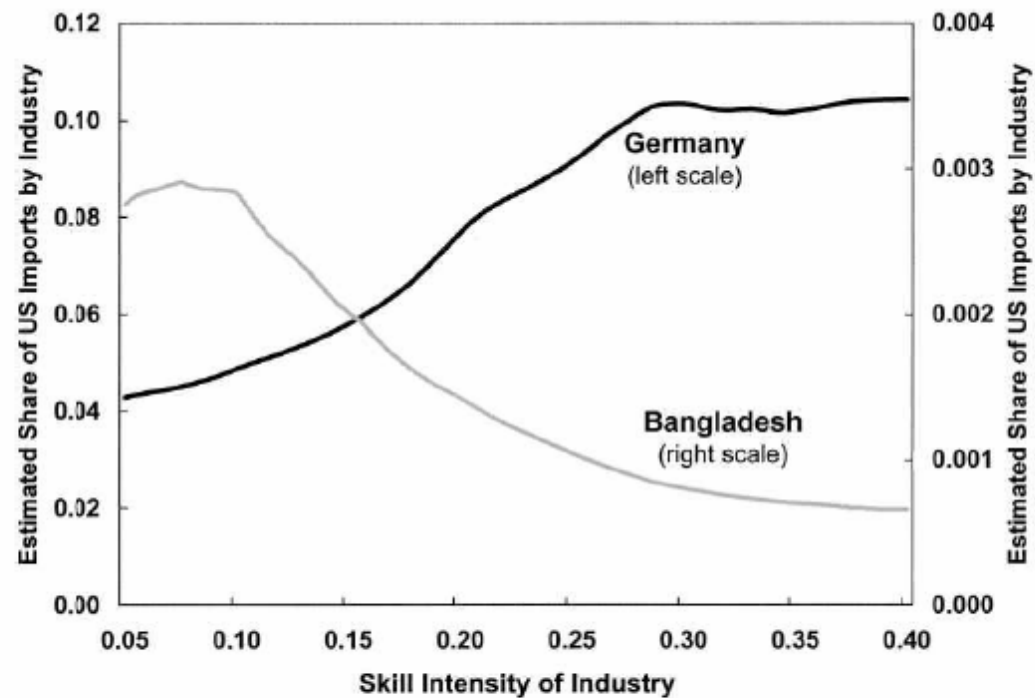
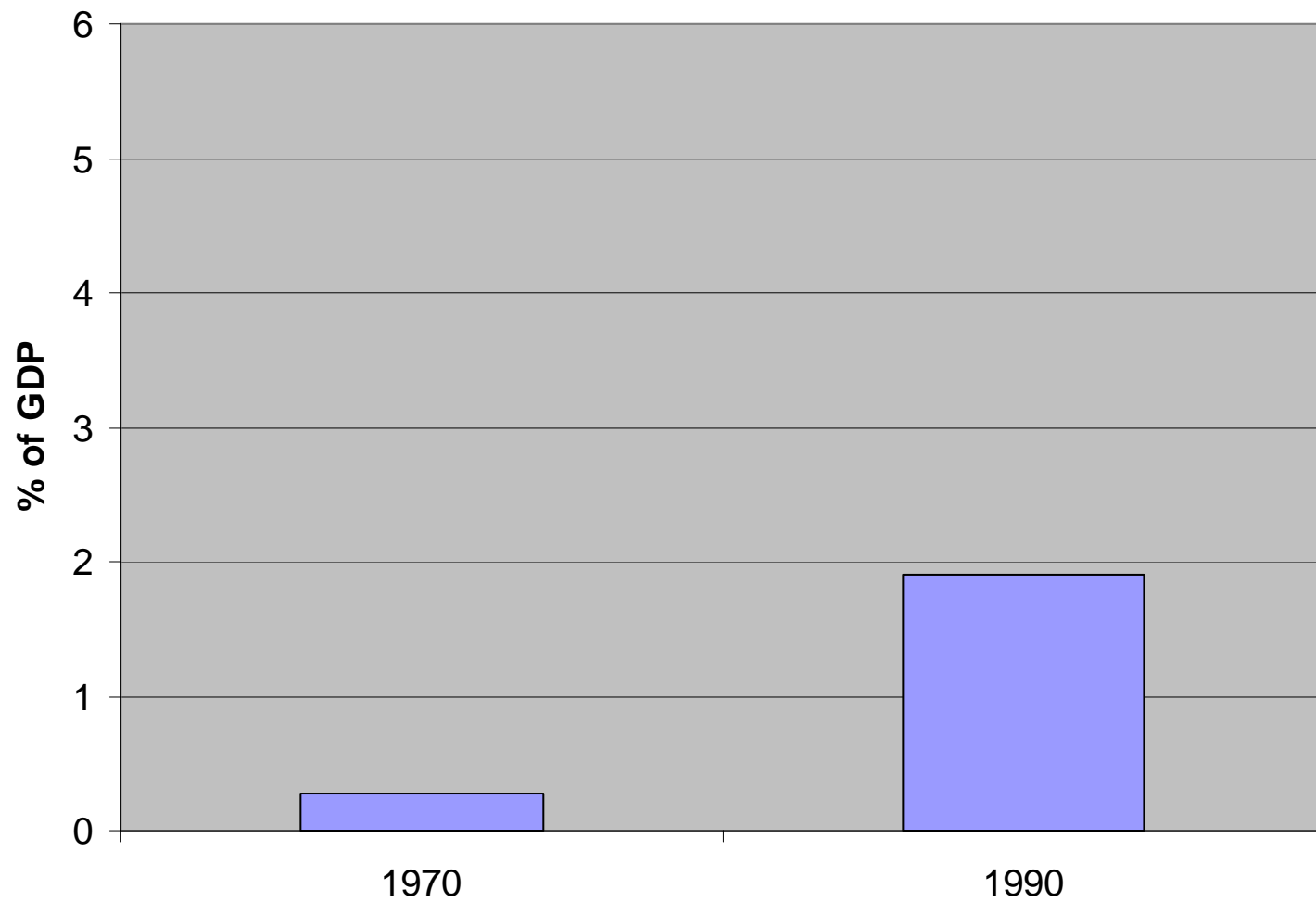


FIGURE 1. HECKSCHER-OHLIN EFFECT FOR GERMANY AND BANGLADESH: SKILL INTENSITY AND U.S. IMPORT SHARES IN 1998

From "Growing world trade: causes and consequences", 1995

It is true that there are new aspects to international trade. Of these, the most conspicuous and also most controversial is the growth of low-wage manufactured exports. This growth almost certainly has had some role in the growth both of unemployment in Europe and of wage inequality in the United States. A sober assessment does not, however, support the view that NIE trade is the principal cause of these labor market problems; nor does it support apocalyptic predictions about the future effects of that trade.

Imports of manufactures from NIEs



Bernanke, this year:

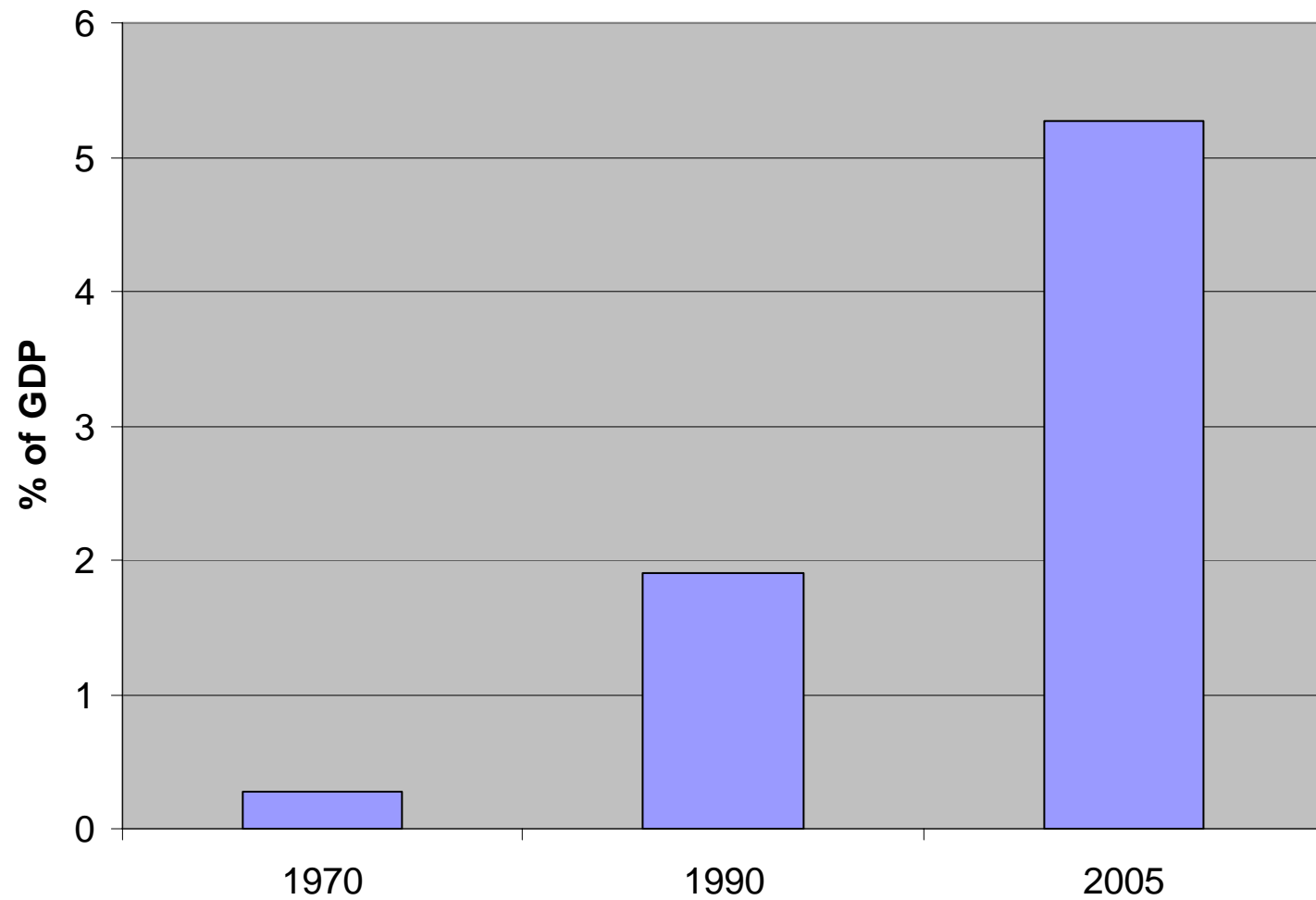
Unfortunately, much of the available empirical research on the influence of trade on earnings inequality dates from the 1980s and 1990s and thus does not address later developments. Whether studies of the more-recent period will reveal effects of trade on the distribution of earnings that differ from those observed earlier is to some degree an open question.

From “Growing world trade: causes and consequences”, 1995

The Limits to Factor Price Equalization

Some of those who worry about the effects of NIE exports on OECD labor markets might accept that these effects have been fairly small so far; but they would argue that these effects will become much larger, as industrialization spreads. It is possible to make a counterargument: As newly industrializing countries grow, their comparative advantage may shift away from products of very low skill intensity. Is it really likely that skilled labor will be a scarcer commodity in the world economy twenty years from now than it is today? But it is worth asking how large the potential effects of trade on OECD income inequality could be in a sort of worst case scenario.

Imports of manufactures from NIEs



From Romalis 2004

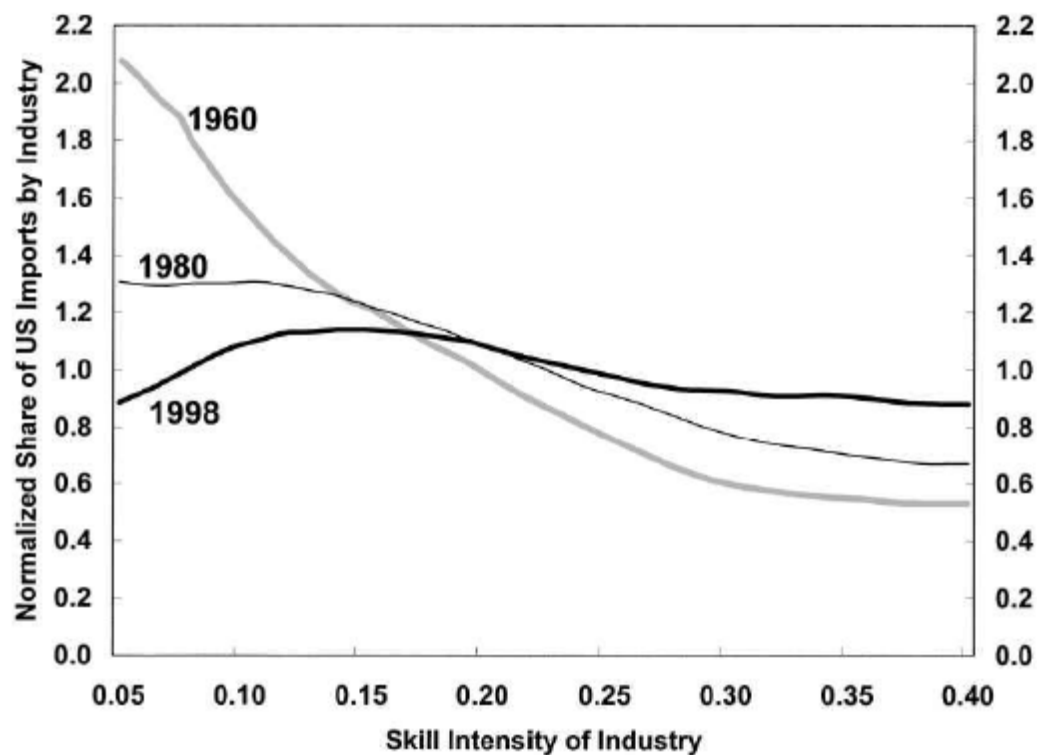
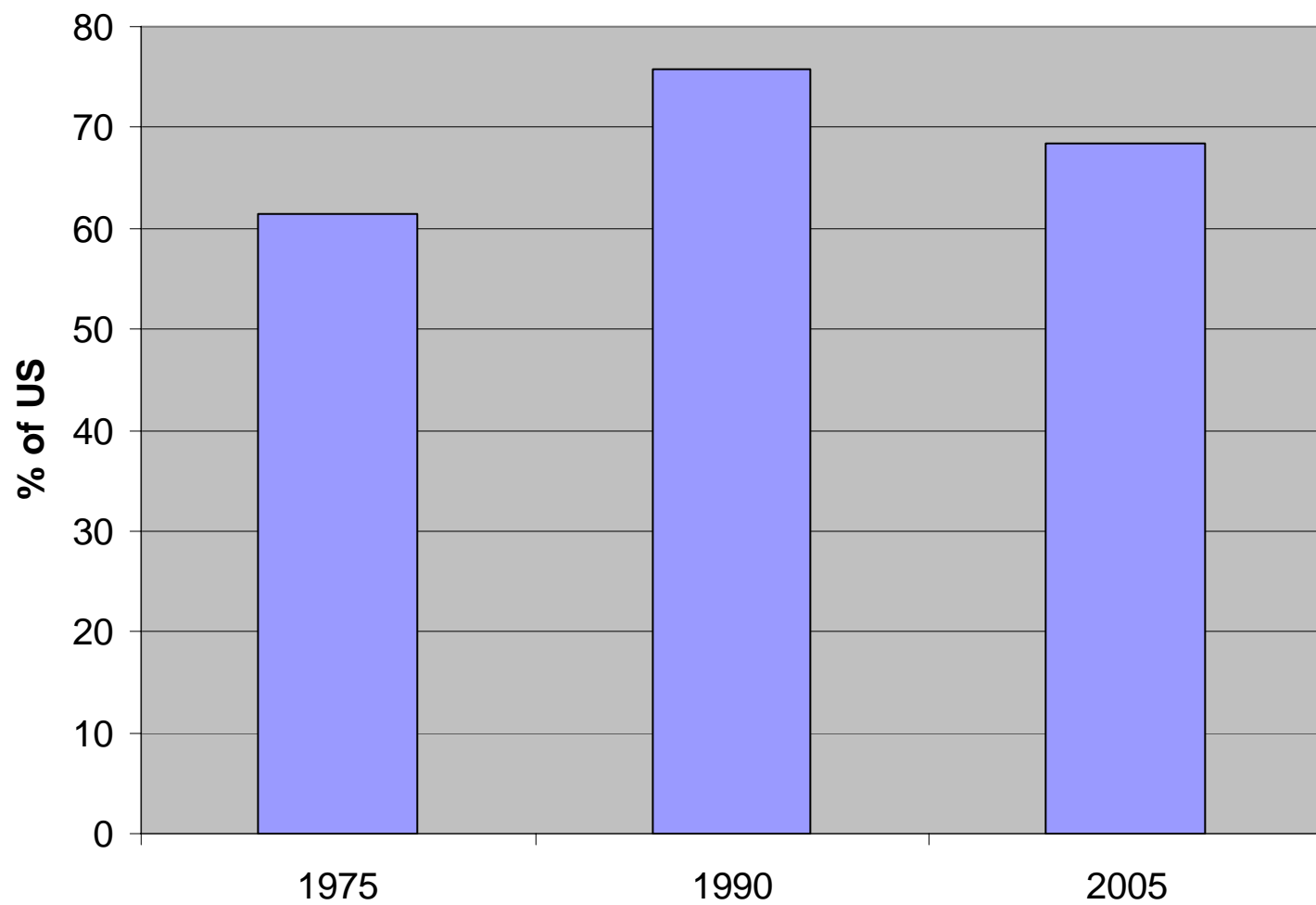


FIGURE 2. RYBCZYNSKI EFFECT FOR THE ASIAN MIRACLE ECONOMIES: COMBINED U.S. IMPORT SHARES 1960–1998

Relative trading partner wages

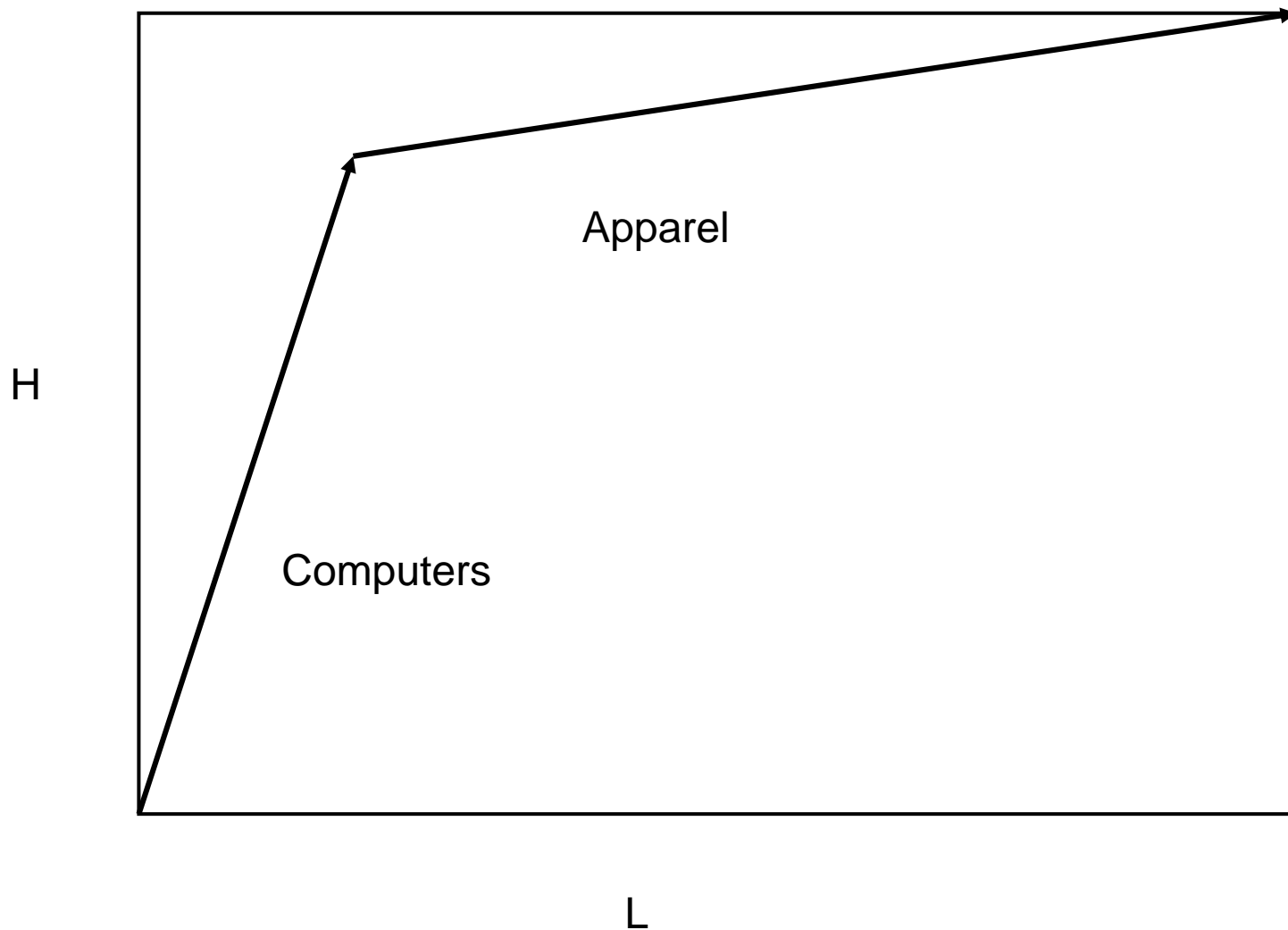


“Growing world trade,” again

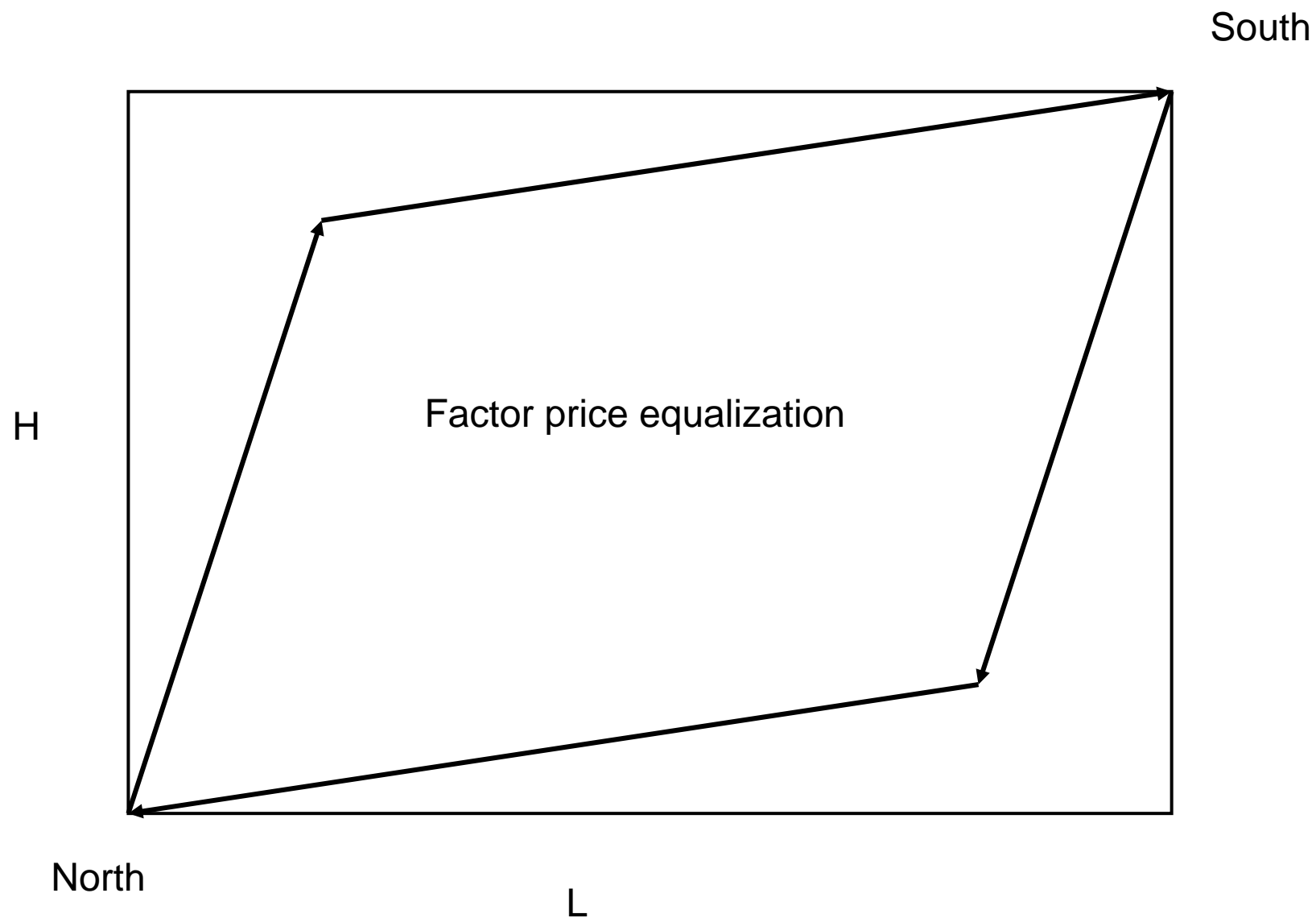
It seems likely that the rise of NIE exports has something to do with the slicing up of the value chain. In the early stages of the NIE phenomenon, when rapid growth was limited to the Asian “tiger” economies, it was common to hear doubts expressed about the possibilities for such growth on a really large scale. Surely a second wave of manufacturing exporters would soon be competing for the same limited markets—apparel, toys, and a few other labor-intensive goods—that were being served by the “Gang of Four”? And surely there would be an insufficient range of suitable products to allow rapid growth of manufactured exports from, to take an unlikely candidate, mainland China!

What has happened, however, is that it has proved possible to find expanded niches for labor-intensive production by slicing up the production of goods traditionally viewed as skill-, capital-, or technology-intensive and putting the labor-intensive slices in low-wage locations.

Outsourcing made simple (really): Samuelson's angel



The angel's wrath ...



Bundling

H-intensive activities in
apparel

South

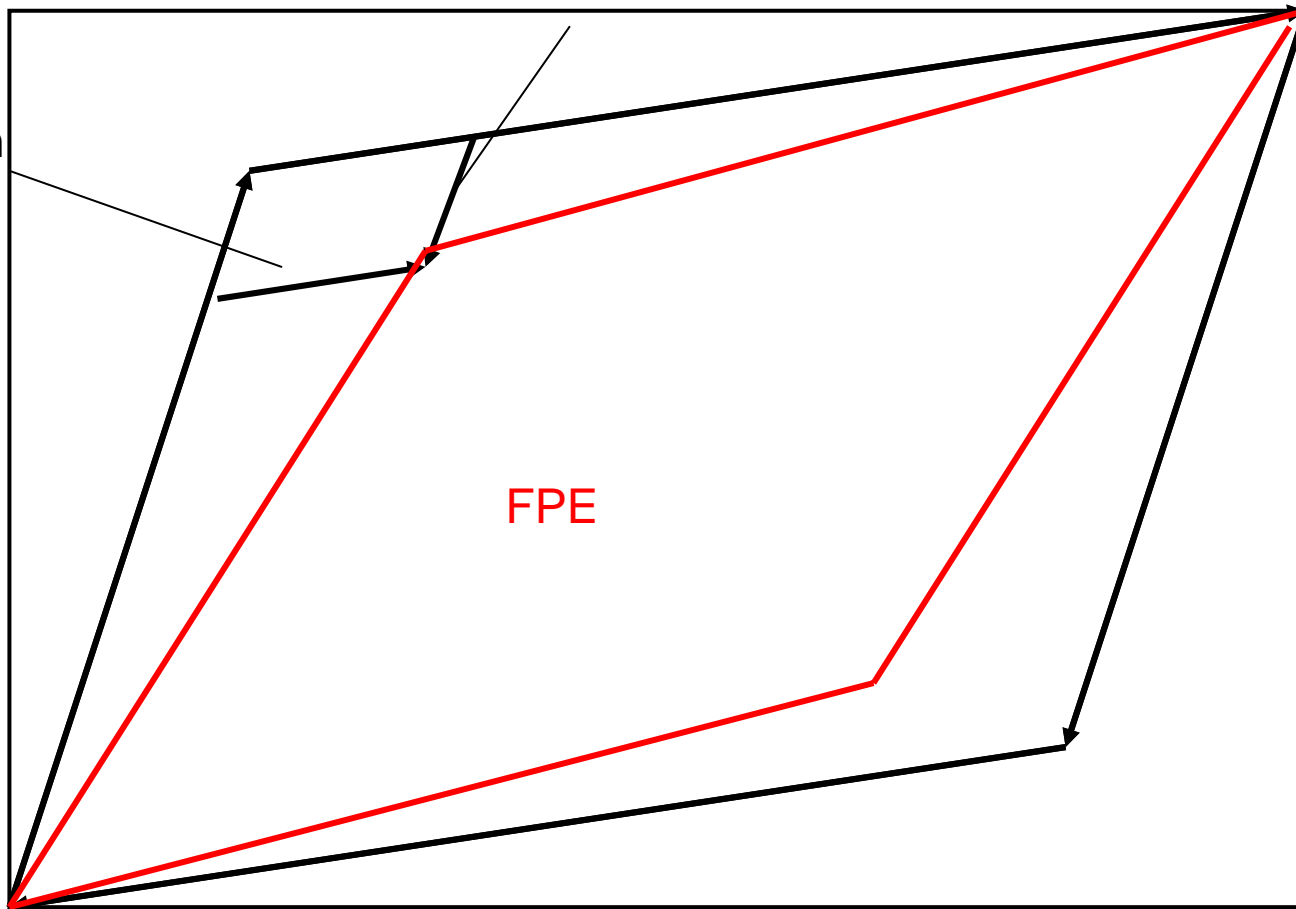
L-intensive
activities in
computers

H

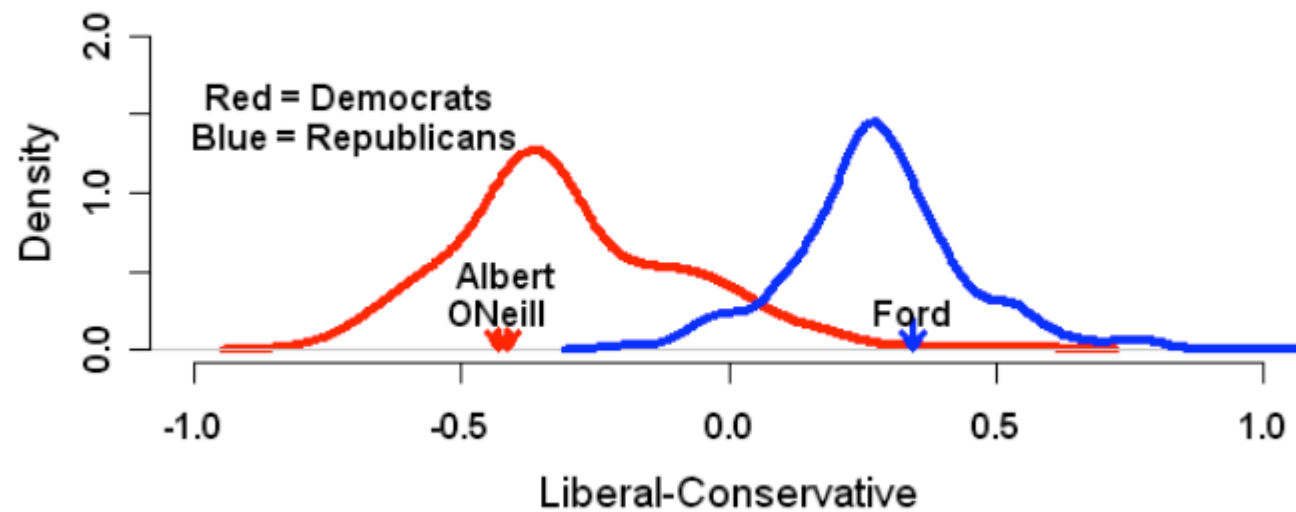
FPE

North

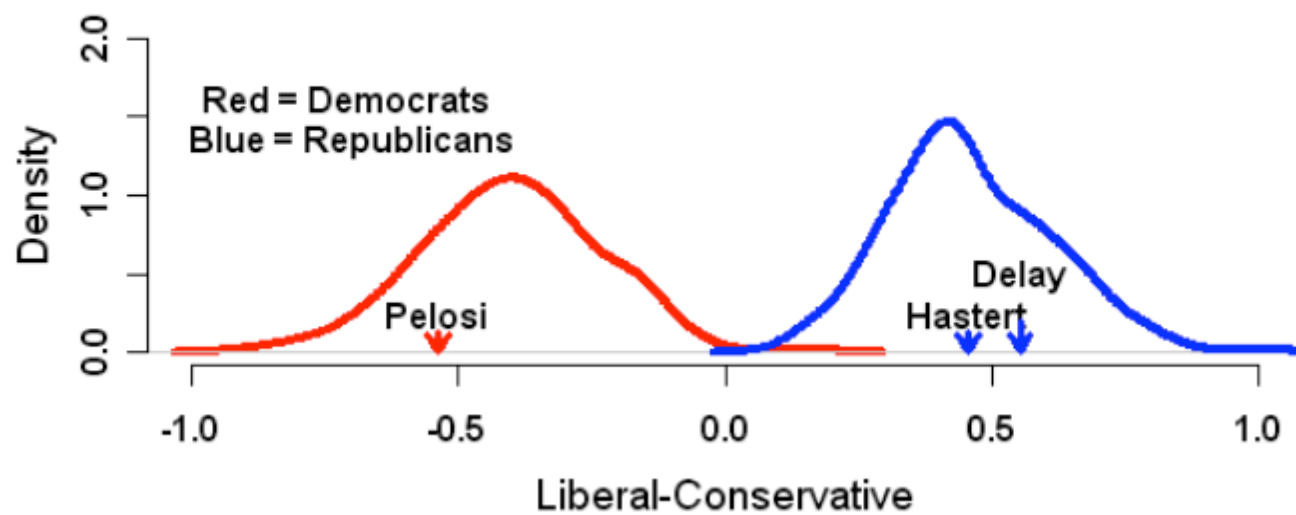
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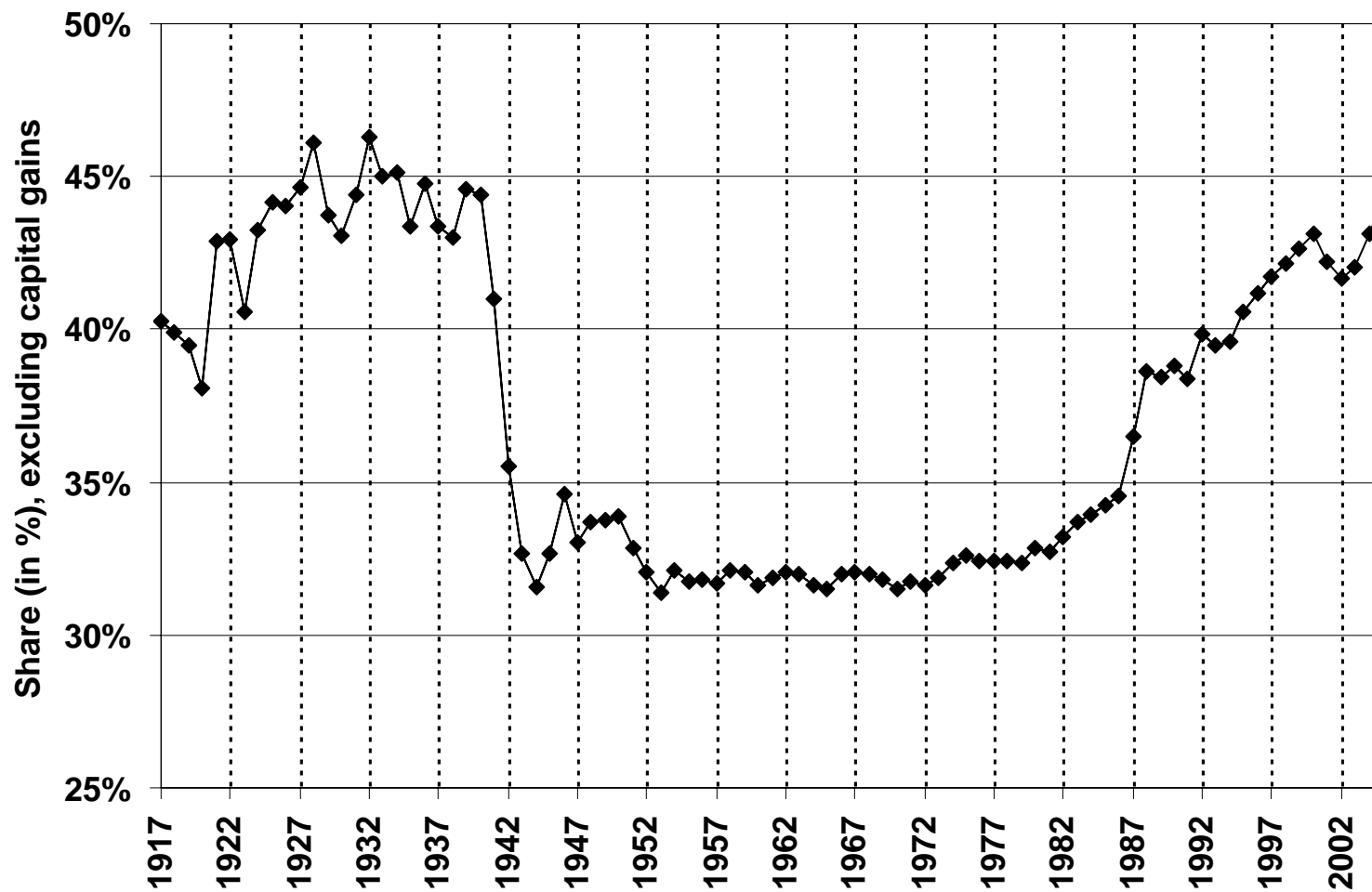
93rd (1973-74) House

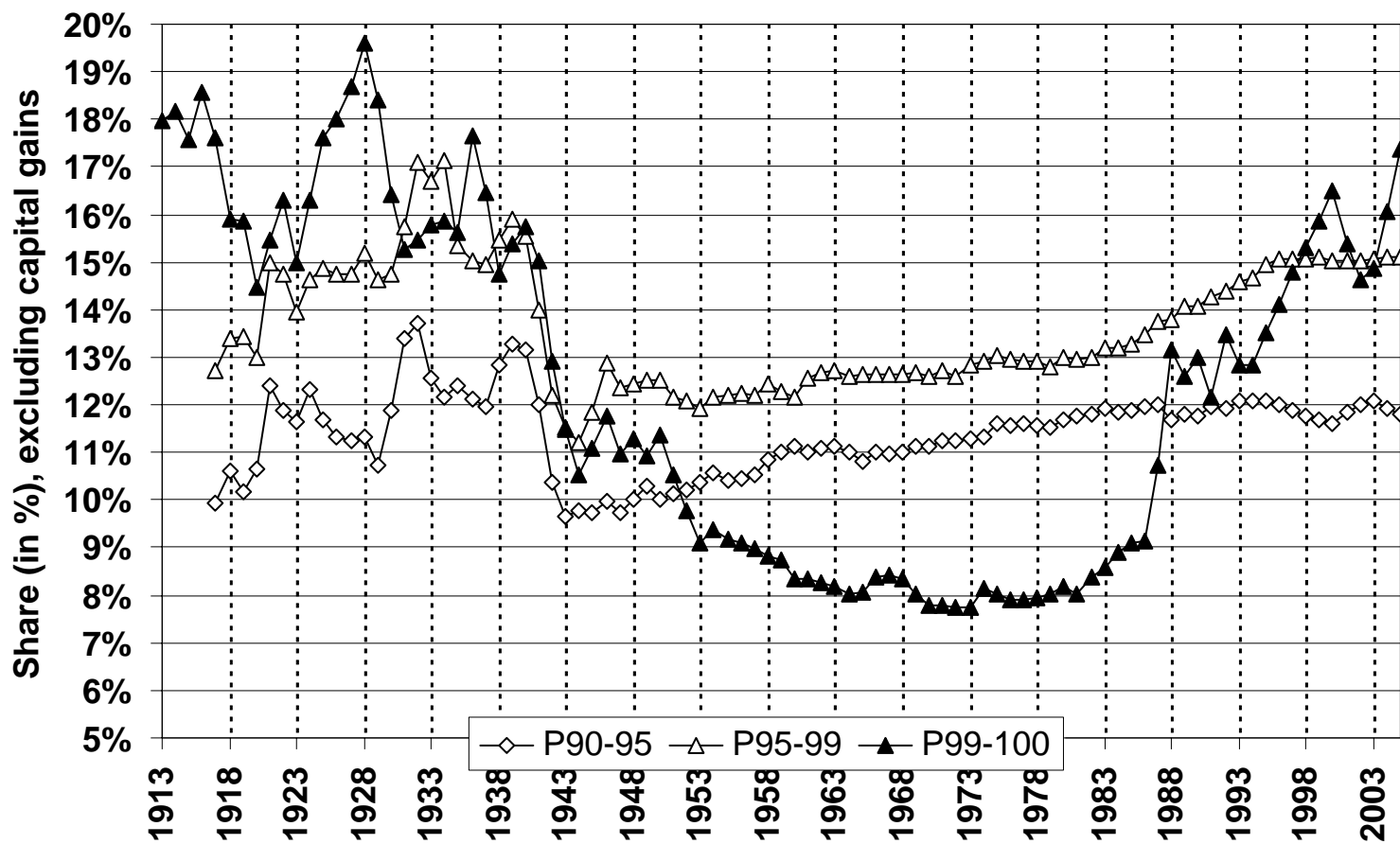


108th (2003-04) House



Top decile share







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