Workshop
Agenda

Global Economic Policy Group Meeting 2023:

Globalization, Labor and Growth

FernUniversität in Hagen | Campus Nuremberg

Wednesday, July 19, 2023

UNIVERSITY OF WESTMINSTER

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Opening Remarks

Session I 09:00–10:30

Progressive Taxation, Rent Sharing, and International Trade

Miriam Kohl (University of Mainz)

This paper examines the labor market effects of international trade in the presence of a welfare state that redistributes income. The labor market is characterized by rent sharing which leads to an overlap in the income schedules of workers and managers. The tax-transfer system is designed as a constant tax rate above some income threshold, which is set so high as to leave the lowest wage and managerial incomes untaxed. The transfer returns tax revenue in a lump-sum fashion to individuals. We show that selection between roles is affected in non-trivial ways by the welfare state. An increase in the tax rate increases the supply of managers of low ability and decreases the supply of production workers. The tax-transfer system also affects the labor market consequences of international trade. We show that the gains from trade are reduced. At the same time, the trade-induced increase in unemployment is mitigated.

Multinational Production, Trade, and Carbon Emissions

Joscka Wanner (University of Würzburg)

International economic integration is increasingly characterized by multinational production (MP). The environmental implications of this shift are unclear as different forms of multinational activity affect emissions in different ways, both for production and transportation. MP may reduce pollution by transferring cleaner technology abroad or exacerbate it by outsourcing dirtier production to foreign countries with pollution-intensive technologies. In terms of transportation emissions, MP may substitute trade, reducing the emissions from shipping, or enhance trade and accelerate pollution from transportation. We provide a quantitative general equilibrium framework that brings together MP, international trade, and carbon emissions from production and transportation. As the available data on MP and emission does not fully identify multinational activity and emissions, we consider the range of calibrated models compatible with the data and accordingly report result intervals for all counterfactual scenarios considered. Comparing the current emissions with counterfactual emissions in autarky, we show that under a mild restriction on the initial emission allocation, MP and trade jointly have almost no potential to lower global carbon emissions. We further derive the emissions from counterfactual trade, investment, and climate policies.

Intellectual Property Rights Protection and the Dynamic Gains from Trade

Ignat Stepanok (IAB)

This paper presents a dynamic general equilibrium model with trade between two structurally identical economies. Trade liberalization promotes innovation and growth when intellectual property rights (IPR) protection is sufficiently weak and does not affect innovation and growth when IPR protection is strong. We show that this result holds for both horizontal and vertical endogenous growth models, which have so far had contradictory predictions on how trade affects innovation. The reason for this supposed contradiction are implicit IPR protection assumptions in the two different types of growth models, strong protection in the horizontal model and weak protection with limit pricing in the vertical model. The IPR protection assumption makes a big difference for the size of the gains from trade. In a simple numerical example we show that assuming weak IPR protection can imply more than seven times higher overall gains from trade.

Coffee Break 10:30–11:00

Session II 11:00–12:30

Lost in the aggregation. European, country, sectoral, and regional factors driving the GDP growth in Europe

Krzysztof Beck (Lazarski University)

Ongoing monetary integration in Europe requires close monitoring of the degree of business cycle synchronization among current and potential member states in order to assess the effectiveness of the common monetary policy. We estimate Bayesian dynamic latent factor model on the disaggregated data on real GDP at both regional and sectoral level. The dimensions of the data allow us to define four different types of factors: European, country, sectoral and regional. We find that research employing aggregated data greatly overestimates the prevalence of the European factor with 66% of variance attributed to the European factor, while only 26% for disaggregated data. Moreover, we find that with richer factor structure only 3% of the variance can be attributed to the European factor, while country, sectoral, and regional factor accounts for 23%, 26%, and 27%, respectively. Therefore, we find that sectoral factors are the main carriers of international business cycle. The analysis in sub-periods shows, that the share of variance explained by the European and sectoral factor increased significantly at the expense of the country factor. The results give support to both "European Commission view" (higher shares of the European and sectoral factor) and "Krugman's view" (higher shares of the regional and idiosyncratic factor) on the synchronization of business cycles in monetary union, while at the same time it shows that the pattern of divergence predicted by Krugman is proceeding at the regional rather than country level. Therefore, the results show that the costs of participation in the monetary union are vastly overestimated whit the assumption of countries being homogenous entities to begin with.

Global financial risk, real exchange rates, and international consumption risk sharing

Jakub Janus (Krakow University of Economics)

The paper investigates the role that global financial risk factors play in the relationship between real exchange rates and international consumption risk sharing. Based on a theoretical framework that incorporates imperfect financial markets in an open-economy setting and quarterly data covering a diverse group of emerging and advanced economies, we provide novel empirical evidence on the long-standing question of why relative consumption growth rates tend to be negatively related to changes in real exchange rates (the Backus-Smith puzzle). In a panel setting, we demonstrate that global risk shocks, especially ones manifesting shifts in the risk-bearing capacity of international financial intermediaries, help rationalize deviations from the full risk sharing condition. However, we find the magnitude of estimated effects to be considerably heterogeneous across countries. Hence, in the next step, we exploit the variation in country-specific variables related to economic and financial openness, external debt, and financial sector development. This allows us to differentiate economies with respect to their vulnerability to financial shocks and assess the relevance of various transmission channels of such shocks. Our results are robust to the possibility of partial consumption risk sharing and they are not driven solely by the reaction of emerging market economies to fluctuations in global risk

Supply shocks and exports: the case of COVID and UK export

Oleksandr Shepotylo (Aston University)

The COVID-19 pandemic has significantly disrupted the global value chains. It led to both demand and supply shocks, which have had a negative impact on global trade. We use HMRC customs transaction UK data at monthly frequencies in 2017- 2020 to analyze the impact of supply shocks on export. We employ the shift- share analysis to disentangle the supply and demand side shocks. We use 2019 bilateral import shares of the UK firms and interact them with the 2020 monthly indicators of the severity of COVID-19 and government restrictions, associated with it, in the UK partner countries in order to measure firm-level exposure of the UK exporters to the supply shocks. We further regress the monthly UK exports in 2020 on the measures of exposure, controlling for the demand shocks in the UK and in the partner countries. The robustness analysis, which includes the use of theory-driven import share based on CES indices, extended import shares in 2017-2019, use of different COVID indicators shows the robustness of the results. We also perform analysis by BEC-4 product groups, dividing exports and imports into consumer, intermediate, and capital goods, which indicates that the most impacted are the UK exporters of intermediate goods which relied on the import of the intermediate goods from abroad. We look at the results by disaggreg ted UK industries and by firm size. We also carry out the IV shift-share analysis and perform a placebo test. We find that COVID shocks in partner countries have a robustly negative and signif cant impact on UK firm exports, with one standard deviation increase in COVID policy stringency reducing exports by 2.7%.

Lunch Break **12:30-13:30**

Keynote **13:30–14:30**

Softening the Blow: U.S. State-Level Banking Deregulation and Sectoral Reallocation after the China Trade Shock

Mathias Hoffmann (University of Zurich)

U.S. state-level banking deregulation during the 1980's facilitated the sectoral reallocation of labor after the China trade shock. Early-deregulated states and commuter zones were financially more integrated by the 1990's which allowed households to better smooth consumption by borrowing against their housing equity. This stabilized demand, kept the price of housing up, and thus facilitated the sectoral reallocation of labor away from import-exposed manufacturing towards the housing sector. Using granular bank-county-level data, we show that early deregulation led to a stronger presence of geographically diversified banks which responded more elastically than local banks to household's increased borrowing demand. Our findings show how household access to finance matters for adjustment after asymmetric terms-of-trade shocks in monetary unions, in particular when the geographical mobility of labor is limited.

Coffee Break **14:30-15:00**

Session III 15:00-16:30

The Labor Market Consequences of Social Housing

Wolfgang Dauth (University of Bamberg, IAB)

In this paper, we investigate the labor market consequences of living in social housing. We develop a new and unique administrative data set of individual labor market biographies linked to social housing addresses in five German cities, allowing us to follow individuals over almost 20 years after having moved into the social housing unit. Using an event study design, we find that access to social housing increases total labor income, daily wages, and job stability, while it decreases unemployment hazards. We explain these results by three complimentary mechanisms: labor market access, residential stability, and an income effect. First, the social housing units are considerably closer to the city center and better connected to the urban labor market, as compared to the last address prior to moving into social housing, and the estimated treatment effects are more pronounced in cases where labor market access increased due to the move. Second, the high stability of the residential arrangement provided by social housing in Germany – both in terms of housing costs and the location – may induce residents and firms to invest in specific human capital, and it may reduce labor market frictions associated with 'involuntary' moves. Third, the rent subsidy may allow social housing residents to invest in their human capital. Finally, we exploit differences in neighborhood quality across social housing addresses to show that the treatment effects are more pronounced when the neighborhood quality inside and around the social housing building is higher.

Growth Paths and Resilience

Simon Rudkin (University of Manchester)

Development trajectories may be mapped as points in a multi-dimensional space where each axis represents a year. Regions with similar development trajectories sit proximately within the space. The first part of the talk discusses Topological Data Analysis Ball Mapper as a means to map the trajectory space. The application in the presentation explores whether regions following common development paths experience similar levels of resilience when faced with a shock. Analyses of three different indicators of resilience (value added, employment, productivity) across UK local authority districts between 1980 and 2015 reveal that regions following a common evolutionary path did not respond homogeneously to the global financial crisis, and they experienced different levels of resilience across resilience indicators. There does not appear to be a common development path which guarantees resilience to a future shock. Understanding connections between conflicting indicators of resilience is paramount to inform policies to enhance resilience.

Democracy and Migration Intention

Ehsan Vallizadeh (IAB)

This paper examines how changes in political institutions affect migration preferences. We exploit a natural experiment, the Velvet Revolution in Armenia in 2018, to address two important que tions: does democratization affect intention to stay in the home country? ii) what are the unde lying mechanisms behind this effect? We use Gallup World Poll data and include macro indices on democratization and political institutions. We apply the synthetic difference- in-differences (SDiD) method and provide evidence that a positive shift to democratization leads to an increase of inte tion to stay by about 25 percentage points. We show that this effect operates through improving individuals' expectation about future prospects and increasing trust in the government.

Coffee Break 16:30–17:00

Session IV 17:00–18:10

International trade fluctuations: global versus regional factors

Karen Jackson (University of Westminster)

This paper examines the relative importance of global, regional, country and idiosyncratic factors, as well as the determinants that underpin fluctuations in international trade flows across different regions of the world. Our analysis starts by using a Bayesian dynamic latent factor model (BDFM) to simultaneously estimate the four dynamic factors, followed by the application of Bayesian model averaging to identify the variables that explain the shares of variance. Our key findings are: (i) international factors are the most important in explaining fluctuations in international trade, suggesting that the interconnections between economies, and policies/shocks at the regional and global level, tend to be more important than country-level factors (ii) regional integration, particularly when the agreement goes beyond trade in goods, is positively related to the share of the regional factor, and inversely related to the importance of the global factor. Furthermore, the regional factor is more important in the case of economically large trade blocks. Overall, our analysis illustrates the usefulness of applying a BDFM model to study the co-movements of international trade series.

Institutions and plant-level responses to the China shock

Hans-Jörg Schmerer (FernUniversität in Hagen)

This paper presents an empirical analysis of plant level responses to the China trade shock based upon a DSGE framework with heterogeneous firms, search and matching and employment prote tion. Our particular focus is on the interaction between employment adjustments to trade liberalization and labor market institutions. While soaring imports from China are associated with a higher rate of unemployment in the short-run, unemployment is decreasing in the long-run. These results are driven by plant-closure in the short-run and adjustments at the intensive margin in the long-run. The role of labor market institutions for the trade and employment nexus is studied by interaction of adjustments in employment protection costs and the trade and labor market outcome effects derived in the benchmark version of our DSGE model.

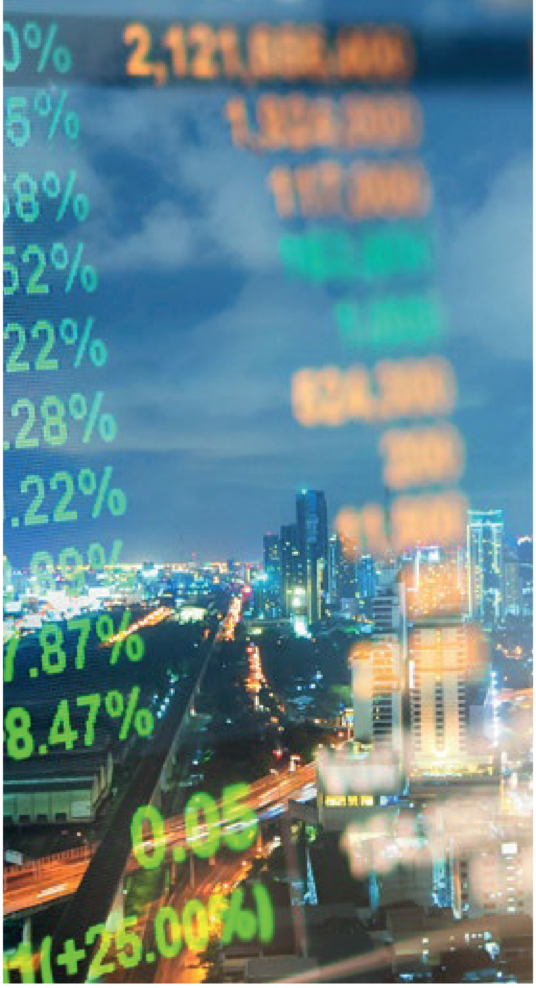
Monetary lifetime returns to high school education, the evolution of its unobserved heterogeneity, and potential implications for the signaling value of education

Matthias Westphal (FernUniversität in Hagen)

This paper seeks to identify monetary returns to education across the lifecycle using linked survey and administrative labor-market data from Germany. To instrument education, we leverage the massive opening of academic track schools throughout the German educational expansion (1950—1980). After documenting sizeable and increasing monetary returns over the life course (with substantial average returns of about 15 to 22 percent per year), we explore the evolution of the unobserved heterogeneity using the marginal treatment effects (MTE) framework. As we find significant and increasing heterogeneity in the returns over the life course, we can explore whether individuals with exceptionally high returns in their prime earnings years slowly or quickly reached their earnings potential after labor market entry. As the eventual earnings potential is unobserved to employers at the beginning of the career but observable through the MTE estimation, this analysis may identify the speed of employer learning and thus inform about whether education increases human capital or whether education certificates instead are signaling devices.

Closing Remarks

Dinner



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https://www.fernuni-hagen.de/igas/cesa/GEPG.shtml

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https://www.westminster.ac.uk/research/groups-and-centres/the-global-economic-policy-group

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