

CAPITAL MOBILITY AND LABOR¹

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By many criteria, the world economy is no more integrated today than it was in 1913. Trade flows are at similar levels (in relation to national output), and net capital flows are, if anything, smaller than they were at the height of the gold standard. There is at least one big difference however: labor is considerably less mobile across national boundaries than it used to be. Millions of immigrants made their way from the old world to the new during the late 19th century. In the U.S., immigration was responsible for 24 percent of the expansion of the labor force during the forty years before World War I (Williamson 1996, Appendix Table 1). From the vantage point of late 20th century, it is in fact remarkable how unrestricted the international mobility of people was. As Keynes nostalgically remarked in the aftermath of World War I, the inhabitant of London in 1913 “could secure ... cheap and comfortable means of transit to any country or climate without passport or other formality” (Keynes 1920, emphasis added). This era is clearly over, as is the era of large migrations.

Hence one of the critical features of today’s globalization is that capital is internationally mobile while labor is not. This note discusses some of the implications of this asymmetry.

Theory

Virtually all of the empirical studies in the literature looking at the labor-market

¹Draft paper prepared for the NBER workshop on Trade, Technology, Education, and the U.S. Labor Market, April 30-May 1, 1998. This paper relies heavily on previous work and makes intensive use of cut-and-paste technology.

consequences of globalization have focused on trade with developing countries. This is a natural consequence of adopting the Heckscher-Ohlin (factor-endowments) perspective. Trade has significant wage effects, according to this framework, only to the extent that we trade with countries with relative factor endowments that are appreciably different from ours. But even studies that don't adopt the factor-endowment perspective (such as the Feenstra-Hanson papers on outsourcing in Mexico [e.g. 1996]) typically look at only trade with developing countries.

What this means in practice is that the available studies look at only about a third of the trade that is going on, and leave out the implications of capital flows. Therefore it should not be a big surprise that the quantitative findings are almost uniformly small: trade with developing countries is only about 4 percent of GDP in the U.S. today.

Could the standard approach be missing an important part of what is going on? Consider the following thought experiment. Assume the world is made up of 150 plus countries which are each a miniature replica of the U.S. in terms of their relative-factor endowments. So there would be no trade based on comparative advantage a la Heckscher-Ohlin. Now consider two scenarios. In the first scenario, the U.S. is completely closed to trade. In the second, the U.S. is completely open, and in particular employers (capital), but not workers, are free to move around the globe and to outsource as they please. Think of the manner in which labor markets in the U.S. would operate under these two scenarios.

Would you rather be a worker in the first scenario or in the second? I doubt that you would be indifferent. The second scenario differs from the first in one fundamental respect: the elasticity of demand for labor increases in all of the countries that are now free to trade with each other. After all, employers can pack up and leave, but workers cannot. For workers that is bad

news on at least three counts: (a) workers are now likely to have to pay a larger share of the cost of improvements in work conditions and benefits (that is, they bear a greater incidence of non-wage costs); (b) they have to incur greater instability in earnings and hours worked in response to shocks to labor demand or labor productivity (that is, volatility and insecurity increase); (c) and they have to receive lower wages and benefits whenever bargaining is an element in setting the terms of employment (that is, their bargaining power erodes).

Note moreover that these changes can happen despite the complete absence of trade. The reduction in worker's earnings in each country pre-empts the trade (in goods or capital) that would have otherwise taken place.

Incidence.² Increased trade and investment opportunities for employers make it more costly for workers to achieve a high level of labor standards and benefits. The larger the elasticity of demand for labor, the higher the share of any such costs that must be borne by the workers themselves.

The point can be seen using the supply-demand framework in Figure 1. Let the initial labor-market equilibrium in the North be at A, with wages at w_0 . Now consider the consequences of raising labor standards, say enhancing workplace safety. From the perspective of employers, labor standards can be viewed as a tax on employment. The result is a shift up in the effective labor supply curve (as shown in the figure), by an amount corresponding to the additional (per-worker) cost of maintaining the standard. In the new equilibrium, as in the usual tax-incidence analysis, some of the additional cost will be borne by employers and the rest by workers. What

²The rest of this section draws heavily on chapter 2 of Rodrik (1997).

determines the distribution of the cost between employers and workers is the elasticity of demand for labor. Two cases are shown in the figure.

As Figure 1 shows, the more elastic is labor demand, the greater the part of the cost increase due to the labor standard that is borne by workers: wages have to fall from w_0 to w_1' , rather than from w_0 to w_1 . The reduction of employment in the industry affected is larger as well. Hence, in an integrated world economy, higher labor standards cost workers more, in terms of both wages and jobs.

This relates to a common complaint that low labor standards in exporting countries create downward pressure on importing countries' labor standards as well. This is the well-known race-to-the-bottom argument, according to which workers in the North will have to acquiesce in standards that are low enough to prevent footloose capital and employers from deserting them for the South.

The argument has surface appeal, but is correct only in the limited sense that globalization alters the incidence of non-wage costs. The case against the race-to-the-bottom argument has been put well by Richard Freeman (1994): Any country that wants higher labor standards can purchase them for itself, regardless of the level of standards in other countries, in one of the following three ways. First, a currency devaluation can be used to reduce domestic costs in foreign-currency terms, thereby offsetting the loss in competitiveness. Second, there could be a downward adjustment in wages directly (which is the incidence point again). Third, the cost of higher labor standards can be paid for by the government, and financed through an increase in taxes. Provided one or a combination of these approaches is followed, the presence of demanding labor standards does not put competitiveness and jobs at risk in the rich countries. The race to

the bottom need not take place.

Yet, as the incidence analysis shows, there is a sense in which globalization makes the race to the bottom a possibility. Freeman is correct, of course, that higher labor standards can be maintained if there is a willingness to pay for them. What increased openness to trade and foreign investment does, however, is render it more difficult for workers to make other groups in society, and employers in particular, share in the costs. Consider the three options mentioned earlier: devaluation, taxation, and wage cuts. As long as employers and capitalists have the option of moving (or importing from) abroad, they cannot be induced to take a drop in their real after-tax earnings.³ Therefore, devaluation can work only insofar as it results in a disproportionate cut in take-home real wages. The same is true for taxation. One way or another, it is workers that must pay the lion's share of the cost.

Volatility. The flattening of labor demand curves as a consequence of the mobility of employers results in greater instability in labor-market outcomes. Shocks to labor demand--caused, say, by shocks in labor productivity--now result in much greater volatility in both earnings and hours worked. The result is increased risk borne by workers.

Consider again the supply-demand framework in Figure 2. Let the initial labor-market equilibrium in an advanced industrial country be at A. Two labor-demand curves are drawn for this equilibrium, one for the closed economy and one for an open economy. The open economy labor demand curve is the more elastic one. Consider now the consequences of an exogenous

³To the extent that it remains costly to move abroad, employers will still share some part of the cost of worker benefits, but to a lesser degree than before.

shock to labor demand, say because of a shock to labor productivity. As drawn the shock is a positive one, and both labor demand curves shift up by an equal amount. For the closed economy the new equilibrium is at B, and for the open economy it is at C. There is a larger increase in wages and employment in the open economy than there is in the closed economy. Conversely, had the productivity shock been a negative one, wages and employment would have fallen by a greater amount in the open economy. In short, openness makes labor-market outcomes more volatile.

A significant increase in volatility in labor-market conditions has been well documented in the U.S., a fact which apparently also accounts for an important part of the rise in wage inequality. Gottschalk and Moffitt (1994) report that between one-third and one-half of the widening wage distribution from the 1970s to the 1980s can be attributed to the increase in the short-term variance in earnings (i.e., the increase in the average worker's earnings variation within a typical year). Between the two periods (from 1970-78 to 1979-87), the permanent variance of real annual earnings rose by 41 percent (from 0.20 to 0.28), reflecting the dispersion in permanent earnings. The transitory variance, which is roughly half as large as the permanent variance, rose by almost the same percentage amount (42 percent). This indicates that fully one-third of the widening of the measured earnings distribution has resulted from an increase in the instability of earnings. Moreover, the increase in short-term volatility is greatest for the least-skilled groups (which almost doubled), these being the ones for which demand has presumably become the most elastic.

Recent evidence analyzed by Farber (1996) suggests also an increase in job insecurity in

the 1990s compared to the 1980s. Farber found, for example, that the rate of job loss⁴ in the 1991-93 period (during an ongoing economic recovery) was higher than even in the severe recession of the early 1980s. The most dramatic increase in job loss rates appears to have occurred for managers and workers in sales and administration, although it is still craftsmen, operatives, and laborers who incur the highest rates overall. Hence there are indications that down-sizing is having measurable consequences on the job security of middle managers.

Neither Farber nor Gottschalk and Moffitt analyze the causes of these changes, and do not link them to globalization in particular. But the facts they document are consistent with a picture of labor markets in which greater mobility of employers interacting with short-term fluctuations in labor demand (or labor productivity) has resulted in greater inequalities across and within skill groups and greater instability in wages and employment.

A simple numerical exercise suggests that plausible increases in the elasticity of demand for labor can indeed account for the observed volatility in U.S. labor markets. As Figure 2 indicates, the extent to which wages and employment become more volatile in response to labor-productivity shocks depends on the elasticity of labor supply as well as the increase in the elasticity of labor demand. Assume that individual industries face a labor supply elasticity of unity in the short to medium run. Assume further that globalization has resulted in an increase in the elasticity of demand for labor (again at the industry level) from -0.5 to -0.75--which is not a very large change, and is in line with Slaughter's (1996) results. Then one can calculate that the

⁴The rate of job loss is defined, roughly, as the number of workers reporting to have lost at least one job during the a period, divided by the number of workers in the relevant category.

standard deviation of wages and hours worked at the industry level would increase by 29%.⁵ This number is commensurate with the figures in Gottschalk and Moffitt (1994).

Bargaining. As mentioned previously, the greater substitutability of labor also alters the nature of the bargaining between workers and employers, and contributes to the weakening of unions. This part of the picture has received surprisingly little attention in the academic literature on trade and wages, primarily because the focus has typically been on perfectly competitive settings in which wages are determined in spot markets.⁶ There is by now considerable evidence, however, of the presence of labor rents in manufacturing industries (see in particular Katz and Summers 1989 and Blanchflower et al. 1996). This evidence indicates that part of labor remuneration in these industries comes in the form of rent-sharing with the employers.

To the extent that wages are determined in bargaining between workers and employers, then, an increase in the substitutability of workers results in a lower share of the enterprise surplus ending up with workers. A related consequence is that unions become weaker. The more substitutable are workers in Akron with those in Monterrey or Bombay, the less bargaining power they have and the lower the wage they will receive. In the words of Borjas and Ramey (1995, 1109), "foreign competition in industries such as automobiles may have led to increased wage

⁵To see this, let k stand for an index of labor productivity, w for wages, l for hours worked (all expressed in percent changes), and $-\epsilon$ and σ for the elasticities of labor demand and labor supply respectively. Then we can express w and l as $w = [\epsilon/(\sigma + \epsilon)]k$ and $l = [\sigma/(\sigma + \epsilon)]k$. Fixing σ at unity, the increase in the standard deviations of w and l as ϵ goes from 0.5 to 0.75 can be calculated using these formulas.

⁶Borjas and Ramey (1994 and 1995) are two significant exceptions. Richardson and Khripounova (1996) is a recent paper that has tackled this issue head on.

inequality not just by shifting workers from high wage sectors to low wage sectors, but also by changing the wage-setting behavior of the entire economy."

Mitchell (1985) has documented a striking transformation in union contracts starting in the early 1980s, a transformation that is not well accounted for by either the disinflation of those years or the above-average unemployment rate. The transformation was reflected in wage freezes and cuts, which first showed up in a narrow range of industries in 1981, and then spread to others. Management appeared to be increasingly taking a harder stance. Mitchell calls this a "norm shift" in wage determination. While not all the sectors in which this happened were those that came under increased exposure to trade in the early 1980s (e.g., construction and retail food stores), many were (e.g., metal manufacturing, machinery, lumber and paper, aerospace, and so on). Freeman (1996) estimates that about one-fifth of the rise in U.S. wage inequality is due to the decline in unionization. In Western Europe where unions have remained stronger, and the policy environment more supportive, the wages of the less skilled have not collapsed. But the price has been an increase in unemployment.

To many economists, the undermining of unions may not seem like such a bad thing, and this impression is plausibly strengthened by the European experience with unemployment. Indeed, from an efficiency standpoint, the weakening of unions, and of labor's bargaining abilities more generally, can have some benefits. But note that these efficiency benefits are reaped in practice only to the extent that employment expands in industries where artificially high wages previously kept employment levels below optimal.⁷ Has this actually happened? It is difficult to make a

⁷This is because the efficiency costs of unions arise from there being too little employment in unionized industries, not from the high wages received by unionized workers per se--although of course the second is likely to be the consequence of the first. When unions are propped up by

prima facie case that expanded trade has in fact led to more hiring in sectors such as steel and autos in the United States--sectors where monopsony wages were perhaps the most prevalent.

A Model

I will use a very simple model to capture some of the implications of capital mobility for labor.⁸ I assume a small-open economy that produces (and exports) a single good, whose price is determined in world markets. This good is produced under constant returns to scale and using labor and capital. Unlike labor, capital can move across borders, but at a cost. The magnitude of this cost will be the parameter capturing the degree of "openness" of the economy. Labor, whose welfare will be the focus of the analysis, consumes only the importable. The only source of uncertainty in the model is the terms-of-trade (the price of exports relative to the price of imports), which is assumed to be stochastic. Labor income consists of wage income plus the proceeds of a tax on domestic capital. I assume that the government maximizes domestic capitalists' welfare subject to a reservation level of utility for workers, and chooses the tax on capital accordingly.

I will use the model to show the following. An increase in openness makes domestic capital more responsive to changes in international prices and correspondingly magnifies the amplitude of fluctuations in real wages at home. Hence labor becomes worse off, due to increased exposure to risk, even if the mean (expected) real wage remains unchanged. To restore

existing trade restrictions, this reduction in employment is actually not bad from an efficiency standpoint because it counteracts the production-side distortion of the trade restriction, the latter being too high output (and employment) in the import-competing industry.

⁸This section draws heavily on chapter 4 of Rodrik (1997).

the expected utility of workers to its reservation level the government has to increase income transfers, and raise the tax on capital. This strategy works as long as the openness of the economy and the international mobility of capital are not too high. However, when openness crosses a certain threshold, an attempt to compensate labor by increasing the tax on capital becomes self-defeating. Past that threshold, the flight of capital and the erosion of real wages at home would more than offset the value of income transfers. In an extremely open economy, therefore, the government loses its ability to compensate workers through the tax system, and the constraint that workers' utility be above a certain reservation level can no longer be satisfied.

Let the production function of the exportable sector be written as $f(k, \ell)$, with the usual regularity conditions: $f_k > 0$, $f_\ell > 0$, $f_{kk} < 0$, $f_{\ell\ell} < 0$, and $f_{k\ell} > 0$. We normalize the economy's fixed labor endowment to unity, so the production function can also be expressed as $f(k)$. The domestically-owned capital stock is exogenously fixed at k_0 . Note that k , the capital used at home, can differ from k_0 as capital moves in and out of the country. A key assumption is that an increasing cost is incurred by capitalists as capital moves across borders. We can think of this as the cost of setting up business in a less-familiar environment, the cost incurred in transporting the final goods back to the home economy, the cost of communicating with subsidiaries in a different country, etc. Increased globalization will be captured in the model by reductions in λ .

Let p stand for the (relative) price of the exportable. The model is described in three equations:

from this initial equilibrium, since

$$\frac{dk}{d\lambda} = \frac{k - k_0}{pf_{kk} - \lambda},$$

$$\frac{dw}{d\lambda} = pf_{k\ell} \left[\frac{k - k_0}{pf_{kk} - \lambda} \right]$$

and both expressions equal zero when $k = k_0$. Intuitively, we fix the initial equilibrium such that capital has no incentive to move in or out of the domestic economy, and consequently changes in the cost of mobility are of no consequence.

Now consider what happens as p fluctuates. A reduction in p drives down the domestic return to capital and results in a capital outflow, the magnitude of which is inversely proportional to λ . As the figure demonstrates, the greater the mobility of capital, the wider the fluctuations in the domestic capital stock in response to changes in the world price. Formally,

$$\frac{dk}{dp} = \frac{f_k}{\lambda - pf_{kk}} > 0,$$

which is decreasing in λ . The consequences for labor can be easily deduced. Since the domestic wage (in terms of the importable) is determined by the value marginal product of labor in the exportable (equation 3), capital mobility accentuates the fluctuation in the consumption wage.

The lower is λ , the wider the amplitude of fluctuations in w :

$$\frac{dw}{dp} = f_\ell + \frac{pf_{k\ell}f_k}{\lambda - pf_{kk}} > 0,$$

which is decreasing in λ .

In fact, things are even worse for labor insofar as part of workers' income comes from the tax on capital. Denoting workers' total (real) income by I ,

$$I = w + \tau k \quad (4)$$

Fluctuations in I therefore result not only from fluctuations in wages, but also from fluctuations in the tax base (k) as capital moves back and forth in search of higher returns.

Now consider the effect of changing the tax on capital, holding world prices constant. We have:

$$\begin{aligned} \frac{dI}{d\tau} &= k + \left[\frac{dw}{d\tau} + \tau \frac{dk}{d\tau} \right] \\ &= k - \frac{\tau + pf_{k\ell}}{\lambda - pf_{k\ell}} \end{aligned}$$

This expression is increasing in λ , indicating that the tax on capital is most effective as a redistributive tool when capital cannot move abroad easily. For λ sufficiently close to zero, on the other hand, $dI/d\tau$ can be shown to be unambiguously negative for any strictly positive level of τ .⁹ The implication is that an increase in the tax on capital will enhance workers' incomes in a situation where globalization is low, but reduce it when globalization is high. This plays a key role in the argument.

Consider the following timing of events:

⁹This follows from setting $\lambda = 0$ and noting that $kf_{kk} + f_{k\ell} = 0$.

1. λ is determined;
2. the government sets τ to maximize capitalists' income subject to a reservation level of (expected) utility for workers;
3. p is revealed; and
4. the equilibrium levels of w , r , and k are determined.

Since τ is selected before p is revealed, the government must take into account the stochastic properties of p , and how uncertainty affects workers' expected utility.

Assume that p is a random variable with mean \bar{p} and standard deviation σ . Let $I(p, \tau, \lambda)$ stand for the realized equilibrium value of income. Taking a Taylor expansion around \bar{p} , expected utility, $EV(I(p, \tau, \lambda))$, can be approximated in the following manner:

$$\begin{aligned} EV(I(p, \tau, \lambda)) &= E[V(I(\bar{p}, \tau, \lambda)) + \frac{dV(I(\bar{p}, \tau, \lambda))}{dp} (p - \bar{p}) + \frac{1}{2} \frac{d^2V(I(\bar{p}, \tau, \lambda))}{dp^2} (p - \bar{p})^2] \\ &= V(I(\bar{p}, \tau, \lambda)) + \frac{1}{2} \frac{d^2V(I(\bar{p}, \tau, \lambda))}{dp^2} \sigma^2 \end{aligned}$$

Now assume that workers' utility (V) is logarithmic:

$$V(I) = \log I = \log (w + \tau k)$$

Expected utility can then be written as

$$\begin{aligned} EV(I(p, \tau, \lambda)) &= \log (w(\bar{p}, \tau, \lambda) + \tau k(\bar{p}, \tau, \lambda)) \\ &\quad - \frac{1}{2} (w(\bar{p}, \tau, \lambda) + \tau k(\bar{p}, \tau, \lambda))^{-2} [f_l(k(\bar{p}, \tau, \lambda)) + f_k(k(\bar{p}, \tau, \lambda)) \frac{\tau + p f_{kl}(k(\bar{p}, \tau, \lambda))}{\lambda - p f_{kk}(k(\bar{p}, \tau, \lambda))}]^2 \sigma^2 \end{aligned}$$

Since the utility function is concave in income, and hence workers are risk averse, expected utility is decreasing in the variance of the world price. Moreover, an increase in openness increases the weight received by price volatility, and reduces expected utility *ceteris paribus*. This can be seen by evaluating this expression at an equilibrium where $k = k_0$ (so that w , and k are insensitive to changes in λ), and noting that a reduction in λ increases the second (negative) term in absolute value. The reason for this has been discussed above: enhanced mobility of capital magnifies the fluctuations in workers' income for any given change in p .

Note that this effect is a consequence purely of increased exposure to risk and is independent of any other consequences of openness. If increased openness further translates into a capital outflow, the losses to workers would of course be greater. Conversely, if increased openness were to reduce the relative price of importables (a channel from which we have abstracted), there would be a compensating gain.

As mentioned above, the government is assumed to operate under a constraint which puts a floor below the expected utility of workers:

$$EV(I(p, \tau, \lambda) \geq \bar{U}$$

Let the initial levels of τ and λ be τ_0 and λ_0 . As before, assume that the domestic capital stock is such that $k(\bar{p}, \tau_0, \lambda_0) = k_0$. It is convenient to assume further that the above constraint just binds in this equilibrium. As discussed above, expected utility falls as λ comes down. For some range of λ , the government can compensate for the reduction in workers' expected utility by raising τ . However, once the cost of moving capital abroad becomes sufficiently small, this is no longer a

viable strategy. Neither an increase nor a decrease in τ can fully compensate for the loss in expected utility suffered as a result of a fall in λ . Consequently, for sufficiently high degrees of "globalization," the government can no longer meet the constraint on workers' utility.

Some cross-national evidence on wages

I close by providing some evidence that is broadly supportive of the ideas developed above. Table 1 presents a series of regressions where the dependent variable is the logarithm of labor costs in manufacturing, obtained from the World Bank Labor Market Data Base (Rama 1996). Each regression includes a series of controls, as well as an indicator of the mobility of employers and capital. As regards the latter, I use two, highly imperfect measures: the share of total trade in GDP (*open*), on the theory that this is likely to be closely related to the volume of outsourcing, and the IMF's classification of countries according to whether the capital account is open or not (*caplib*).

Columns (1)-(4) are panel regressions with fixed effects. I use five-year non-overlapping averages of the data, which yields a maximum of seven observations for each country over the 1960-94 period. I control for labor productivity in manufacturing, GDP per capita, and a measure of political and civil liberties. The first two regressions include the whole sample of countries (around 100), while the last two are restricted to the OECD sub-sample (excluding Turkey). The results indicate that *open* is associated negatively with wages. The estimated coefficient is significantly larger for the OECD countries. Hence, increases in the traded share of GDP are systematically associated with lower labor costs. By contrast, I find no statistically significant effects from the openness of the capital account (*caplib*).

Column (5) is a cross-section regression limited to the 1985-89 period. I introduce the following additional controls: the price level of consumption (which enters insignificantly in the panel regressions with fixed effects) and a set of regional dummies. Now *caplib* (the 1980-84 period) does enter with a statistically significant and negative coefficient. The estimated coefficient suggests quite a strong effect: the absence of capital account restrictions is associated with wages that are lower by 22 percent. Figure 4 provides a partial scatter plot which suggests that the result is not due to outliers. The variable *open* does not enter significantly in the cross-section regressions (results not shown).

I emphasize the preliminary nature of the exercises reported here. Clearly, much more needs to be done in terms of relating the empirical methodology more closely to theory as well as robustness checks before one can draw definite conclusions.

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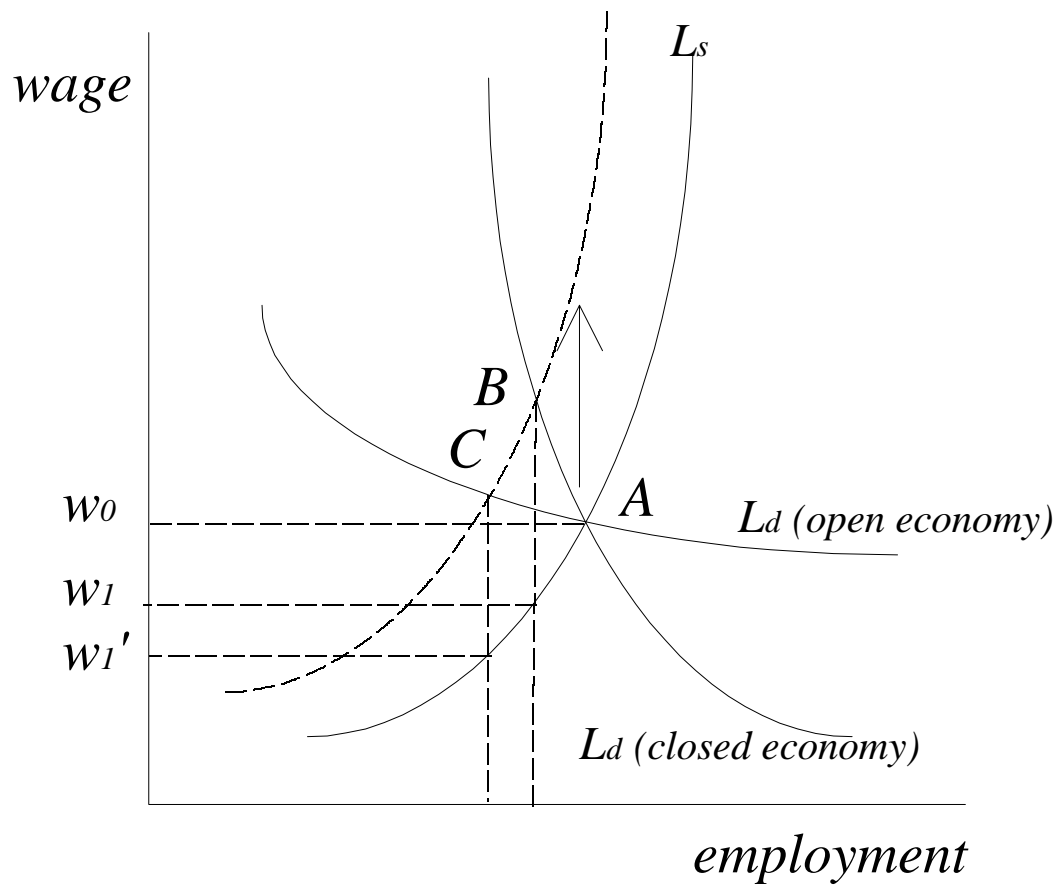


Figure 1

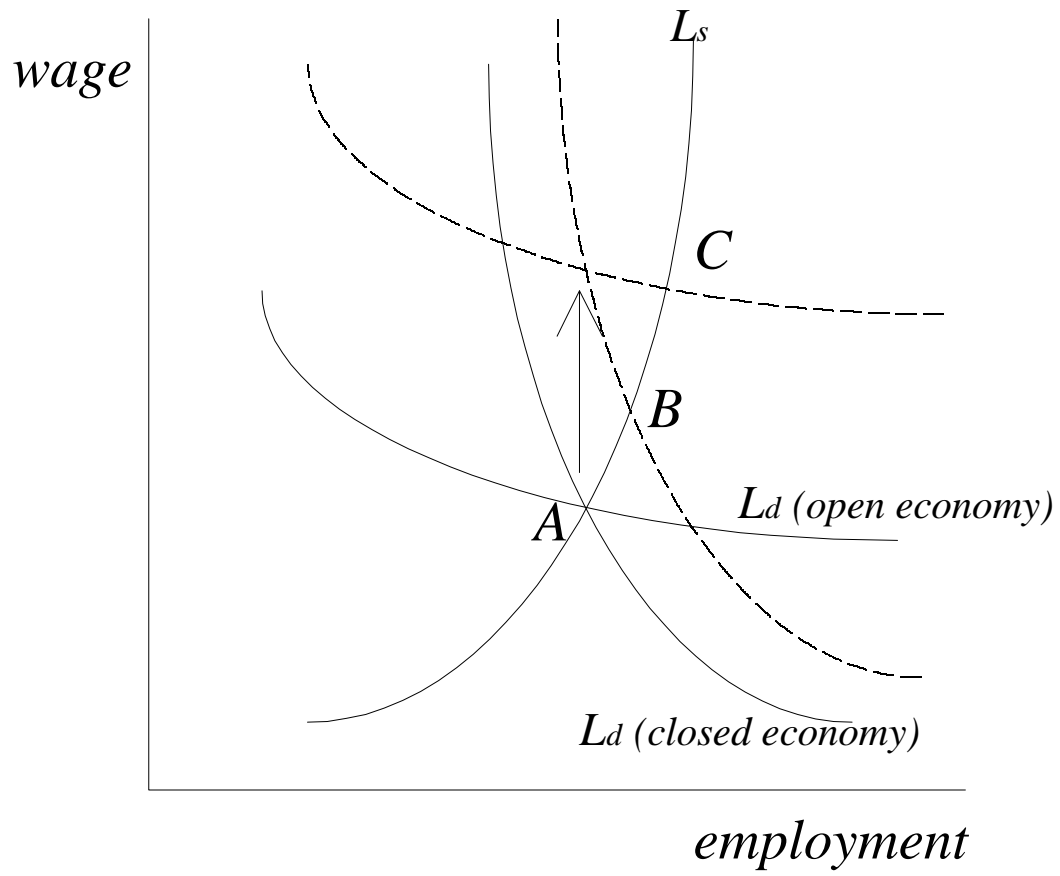


Figure 2

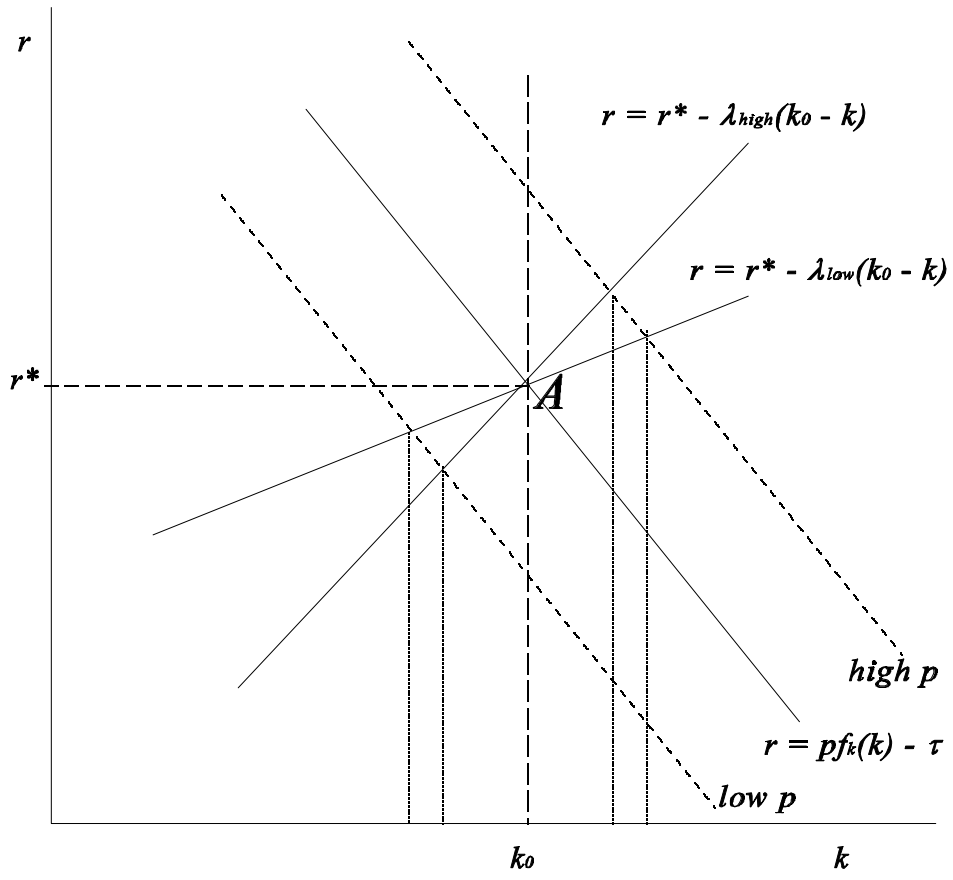


Figure 3

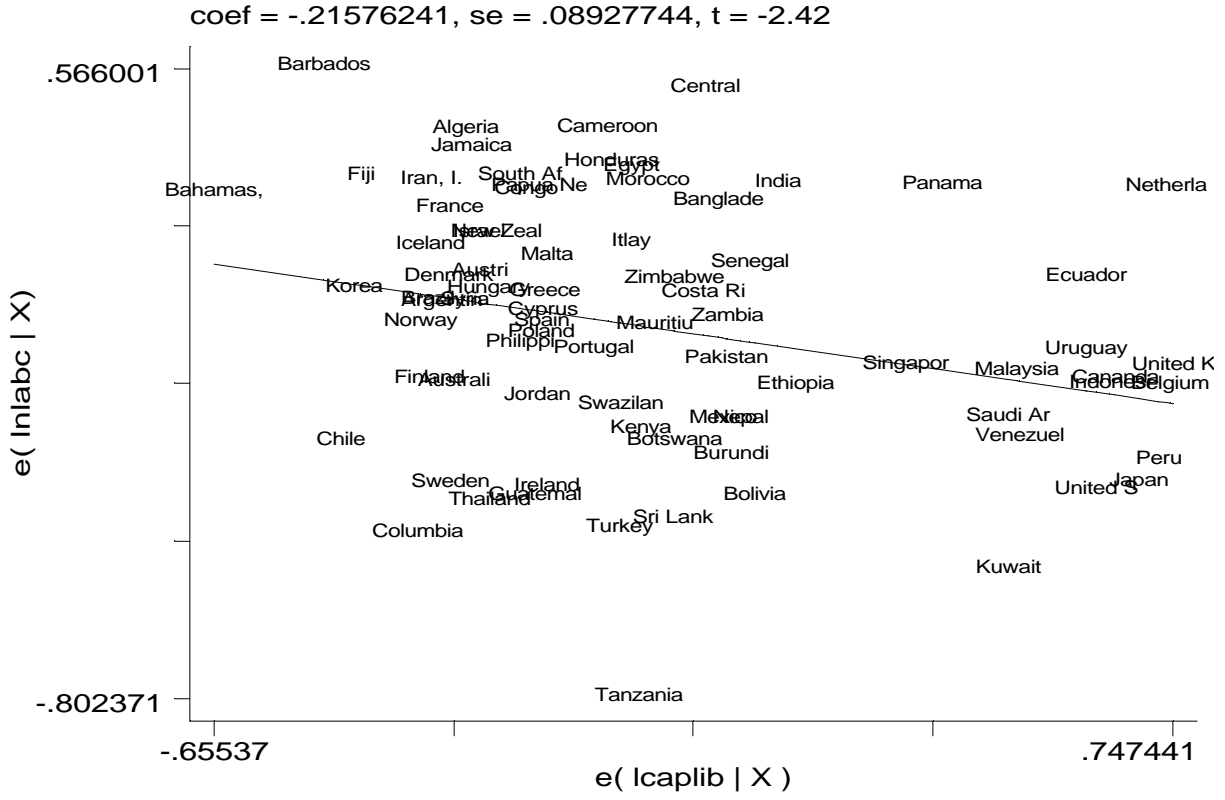


Figure 4

Table 1: Openness and wages					
	<i>dependent variable: log labor costs</i>				
		<i>fixed</i>	<i>effects</i>		<i>cross-section</i>
					<i>OLS</i>
	(1)	(2)	(3)	(4)	(5)
<i>log MVA/worker</i>	0.85*	0.84*	0.71*	0.62*	0.79*
	(0.03)	(0.04)	(0.06)	(0.09)	(0.05)
<i>log GDP/cap.</i>	0.31*	0.28*	0.56*	0.08	0.22*
	(0.06)	(0.08)	(0.11)	(0.26)	(0.06)
<i>democracy</i>	0.13**	0.19**	0.10	0.11	0.36*
	(0.06)	(0.09)	(0.11)	(0.17)	(0.13)
<i>log open</i>	-0.09***	-0.15**	-0.33*	-0.50*	
	(0.05)	(0.06)	(0.10)	(0.18)	
<i>caplib</i>		0.02		-0.05	
		(0.05)		(0.06)	
<i>caplib₋₁</i>					-0.22*
					(0.08)
<i>log price level of consumption</i>					0.48**
					(0.18)
<i>Latin America</i>					-0.16
					(0.10)
<i>East Asia</i>					-0.07
					(0.10)
<i>SSA</i>					0.24**
					(0.11)
<i>period dummies</i>	yes	yes	yes	yes	n.a.
<i>country dummies</i>	yes	yes	yes	yes	n.a.
<i>sample</i>	all	all	OECD	OECD	1985-89
<i>N</i>	508	378	137	94	78
<i>R²</i>	0.93	0.91	0.93	0.75	0.95

Notes: First four regressions are estimated using seven 5-year averages covering 1960-64, 1965-69, 1970-74, 1975-79, 1980-84, 1985-89, and 1990-94. Democracy index is taken from Freedom House. Robust standard errors are in parenthesis in column (5). Levels of statistical significance are indicated by asterisks: * 99 percent; ** 95 percent; *** 90 percent.