

Conference

Inequality, Skills and Globalisation

Lille, 21-22 June 2012

Parallel Sessions

Book of ABSTRACTS



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1.1: Special session on the book *Growing Income Inequality* 1

Michel Dumont & N. Chusseau

Growing Income Inequalities in Advanced Countries

We review the economic literature on growing inequalities in advanced countries (the North). We firstly unveil the main facts concerning widening inequality in the North and underlie the differences between countries and groups of countries. We put forward the concomitance of the rise in inequality with three key developments that are the three major explanations given to growing inequality: globalization, skill biased technological progress and institutional changes. We finally expose the mechanisms behind each explanation and examine the results of the empirical works that attempt to appraise their respective impacts. The overall diagnosis is that the three explanations are valid but (i) their weight may substantially differ across countries and sectors, and (ii) they interact in the determination of inequality.

Nathalie Chusseau & J. Hellier

Inequality in Emerging Countries

We review the theoretical and empirical economic literature upon income inequality in emerging countries. We firstly describe the main observed developments and show that these are rather diverse across developing countries and regions. We subsequently expose the main theoretical mechanisms. We make a distinction between the traditional approaches (Kuznets, Lewis, Stolper-Samuelson) and the new explanations. In the latter, globalization and globalization-driven technological changes are at the core of the analyses. Both approaches bring out several opposite mechanisms. Finally, the empirical estimates display rather conflicting results. Most cross-country studies find a weak impact of globalization on income inequality. In contrast, several longitudinal studies concerning countries taken separately or small groups of countries reveal a positive correlation between openness and the relative demand for skill and inequality. These apparently conflicting findings reflect the opposite mechanisms linked to globalisation and the differences in countries' experiences.

Ekaterina Kalugina

The Working Poor

The paper reviews the empirical literature upon the working poor. After describing the issues arising from the definition and measure of in-work poverty, the author presents the variation in the number of working poor in developed countries. The empirical literature that puts forwards the main characteristics of the working poor and the probability of falling into this category is subsequently examined. The fact that the literature is solely empirical leads the author to claim theoretical research on the subject.

1.2: Inequality and the Labour Markets

Elsayed Ahmed, A. de Grip & D. Fouarge

Part-Time Skill Gap, Pay Penalty, and Job Content

This paper investigates the role of job content (multitasking, task discretion, computer use, and complexity of computer use) in explaining the part-time skill gap and the part-time pay penalty. Using data on employed women from the UK Skills Survey, we show that job content explains a large part of the skill and pay gaps between part-time and full-time workers even after controlling for human capital characteristics and occupational segregation. We also show that occupational transition from full-time to part-time status is associated with downgrading in both skill demand and pay. However, when controlling for the changes in the job content, this downgrading disappears. This suggests that downgrading can be fully attributed to the low job content of the part-time job. Furthermore, we show that the difference in job content between part-timers and full-timers has decreased significantly over the period from 1997 to 2006.

Aline Branche-Seigeot

Labour market participation, employability and basic skill: The case of France

If skills are essential in improving employment conditions and career options, this is partly because they protect against unemployment, particularly when they are of a high level or are at least required by the job specifications. This is particularly disturbing because people with a lack of basic skills are not only more exposed to the risk of being unemployed, but they are also exposed to the risk of deterioration of their skills, because of insufficient use (Coles and Masters, 2000; Decreuse and Di Paola, 2002). Such deterioration is obviously most important where technological change is faster, as in developed societies.

Several studies analyzed the role of basic skills, which are of course needed to acquire more advanced skills, on professional status. However, no study has been conducted in France on this issue. To understand the impact of basic skills on the French labor market, generalized ordered logit models are used. Indeed, it is assumed that choices of employment status depend on the discouragement level, depending itself on skills level of the individuals. Therefore, this hypothesis suggests an order in occupational choices. The analysis is separately made by gender, by educational attainment and by age in order to explain the professional status of people in an approach based on basic skills. The data used come from the survey "Information and Daily Life" (IDL) conducted in France in 2004.

Main results suggest that people with a low educational attainment can be more integrated to the labour market and job if their basic skills are strong. Ditto for old people still in working age. Therefore, public policies or firm policies must enhance basic skills of these individuals to promote their integration to the labour market or their job retention. If basic skills are not mastered, access to the labor market is compromised because there is a risk of despondency. This despondency is particularly harmful since they contribute inexorably to professional and social exclusion over time.

Thomas Sampson

Selection into Trade and Wage Inequality

This paper analyzes the impact of trade integration on wage inequality when there is heterogeneity across both workers and firms. By incorporating labor assignment into the heterogeneous firms literature, I develop a model in which positive assortative matching between worker skill and firm technology explains the employer size-wage premium and the exporter wage premium. Under trade, fixed export costs cause the selection of high productivity, high skill firms into exporting and an upwards shift in the firm technology distribution. Consequently, the demand for skill and wage inequality increase in all countries, both on aggregate and within the export sector. This result holds both when firms' technologies are determined by a random draw and when technology is endogenous to firm level R&D. With endogenous technology, the increased demand for skill caused by trade liberalization results from technology upgrading by new exporters.

1.3: Globalization & Inequality 1

Kirill Borissov & Joël Hellier

Globalization, Skill Accumulation and the Skill Premium

We analyze the impact of globalization upon the skill premium (inequality) in advanced countries from a two-goods North-South model with skill accumulation. Globalization consists of an increase in the size of the South. Its impact on inequality depends on its intensity and on the pre-globalization proportion of skilled workers. The post-globalization inequality is a non monotonic function of the pre-globalization proportion of skilled workers and of the globalization intensity. The impact is different for the generation in work and for the following generations. There is a threshold value of the skill endowment under (above) which inequality is lower (higher) after than before globalization.

Sarah Kroeger

The effect of Offshoring on Wage Inequality in the US

The impact of globalization on wage inequality is much debated, but as yet the current literature has not reached a consensus. Within the framework of an enriched model of skill premiums in the labor market, I present the theoretical predictions for both halves of the domestic wage distribution. I use industry level panel data from the US Census Bureau's Census of Manufactures, and individual level data from the Census and the American Community Survey to examine the impact of increased offshoring real hourly wage levels, the ratio of middle skill to low skill wages, and on the ratio of high skill to middle skill ratio. Consistent with the theoretical predictions, offshoring of both material and service inputs appears to narrow the gap between middle skill and low skill wages, but increase the gap between high skill and middle skill wages.

T. Edwards & M. Lucke

Decompositions of wage inequality and growth in an advanced economy open to trade.

We explore the uses of double-calibrated general equilibrium models as a decomposition tool for analysing contributory factors in the growth and increasing wage inequality in an advanced economy (the UK) since 1979. Calibration of a model to start and end years, based upon an assumed functional form and parameter values, produces a consistent set of decompositions for both growth and inequality. Calibrated TFP growth is consistent with the results from nonparametric growth accounting. The calibration procedure also allows us to explore different exogeneity assumptions regarding capital. However, there are more problems to modelling inequality than with growth: in particular, the main models in the literature, which take skill endowments as given, are characteristically unstable. This strongly emphasises the need for a more dynamic modelling technique, particularly regarding the skill acquisition decision and potential labour market mismatch issues.

2.1: Globalization & Inequality 2**Jan Michałek**, Andrzej Cieřlik & Jerzy Mycielski

Social Inequalities and International Trade

In this paper we study the role of social inequalities in development of international trade using the theory consistent gravity model. Many previous empirical studies, that explored the determinants of trade flows, concentrated only on traditional gravity variables such as the size of trading partners, technology differences or distance. In our study, in addition to the standard set of gravity variables we examine the role of aggregate social development indicators such as HDI, HPI, GDI, as well as detailed measures reflecting various forms of social inequalities. Our results show that measures of social inequalities significantly affect the volume of international trade flows.

Elise Brezis

Globalization, Elites and Social Mobility

The aim of this paper is to examine the effects of globalization on the market for elites. In this paper, I show that globalization will lead to tighter class stratification and to a reduction in social mobility at the top. Globalization will bring about the formation of an international technocratic elite with its own culture, norms, ethos, and identity, as well as its private clubs like the Davos World Economic Forum. Globalization will lead to a strong reduction of social mobility at the top and the emergence of a transnational oligarchy.

Joël Hellier

North-South Globalization and Inequality

To analyse the globalization-inequality relationship, we extend the North-South HOS model by assuming (i) that the size of the South (emerging countries) increases over time and (ii) that both the North (advanced countries) and the South never stand simultaneously inside the diversification cone. The model generates three phases of globalization, corresponding to different production patterns and to specific changes in inequality in the North and in the South. Inequality continuously increases in the North during the first phase of globalization. In the South, inequality jumps down when openness occurs and continuously increases during the later phase. We subsequently assume several northern and southern countries with different skill endowments. Then, globalization generates inequality divergence between northern countries. We finally introduce North-South technological differences, productivity catching up and technological transfers. In the South, the initial variation in inequality can now be reversed and very different profiles in terms of inequality dynamics are possible. Unlike the traditional North-South HOS approach, the model predictions are consistent with observed facts.

2.2: Inequality, Human Capital & Education

N. Fleury, F. Gilles | Impact of industrial restructuring on human capital intergenerational mobility: France, 1946-99

This article aims at evaluating the impact of industrial restructuring on human capital intergenerational mobility. For that purpose, we use data from the 'Training and Occupational Skills' surveys (Formation et Qualification Professionnelle, INSEE, 1993 and 2003) and from the French Population Census (INSEE; 1946-1999). We estimate a human capital production function by considering two complementary econometric models. We show that industrial restructuring has a negative impact on human capital accumulation for children of blue-collar workers. A rise from one percentage point in the restructuring indicator leads to a decrease of schooling duration by around 0.14% and to a rise in the probability to get a low level diploma to 0.27 to 0.43%.

Katrin Scharfenkamp & Alexander Digler | Socio-Demographic Characteristics and Human Capital of the German Federal Government's Members

Currently, background, qualification and training of German top politicians are widely discussed by scholars and media. This paper provides new insights to this discussion by analysing significant differences between the chancellors, vice chancellors as well as ministers of the inner and residual cabinets of the German federal governments between 1949 and 2009 with respect to their socio-demographic backgrounds and educational, economic and political human capital. Applications of different statistical methods reveal that the ministers of the inner cabinet have the most advantageous social background and the best education. Vice chancellors score highest with regard to their economic human capital, measured here by board seats before their current offices. The average tenure in the federal government as well as the expertise in the actual headed department is highest for chancellors.

N. Chusseau, B. BenHalima & J. Hellier | Skill Premia and Intergenerational Skill Transmission: The French Case

In the case of France, we analyse the changes (i) in the skill premium linked to each level of education and (ii) in the impact of parents' skill and income on the educational attainment of their children. In this purpose, we firstly build a theoretical framework that is subsequently transformed into an empirical model. Our calculations firstly reveal (i) a critical decline in the skill premium of the baccalauréat in relation to the lowest skill level, and (ii) a moderate increase in the skill premia of higher education in relation to the baccalauréat, which is however insufficient to avoid the decrease in all the skill premia relative to the lowest level. We secondly find (i) a significant increase in the impact of the family backgrounds upon the individuals' education from 1993 to 2003, this increase essentially deriving from a higher impact of parental income on the educational attainment, and (ii) an increase in the impact of public education expenditures upon education. These findings show that, if inequality has decreased among the employed population, the slow down in intergenerational mobility could reverse this development in the longer term. This may however be offset by higher public educational expenditure per pupil.

3.1: Special session on the book *Growing Income Inequality 2***Joël Hellier**

The North-South HOS model, Globalization and Inequality

The predictions from the traditional North-South HOS approach are at variance with the main characteristics of the Inequality-Globalization nexus. It is shown that by modifying this model and relaxing some of its most restrictive assumptions, it is possible to generate these characteristics. Four series of extensions are analysed: 1) divergent factor endowments between the North and the South and growing size of the South; 2) labour market rigidities resulting from a minimum wage or from the fair wage hypothesis; 3) the introduction of technological differences between countries, of technological transfers, of technological catching up and of technological biases; 4) the inserting of production segmentation and international outsourcing. Further possible extensions are also discussed. The resulting augmented North-South HOS approach provides suitable modelling of the Inequality-Globalization nexus.

Vesna Stavrevska & Wim Meeusen

Efficiency wages and inequality

The paper investigates the impact of efficiency wages upon inequality. Efficiency wage models generate involuntary unemployment because firms set the real wage at a level that is higher than the market clearing wage. As regards inequality, efficiency wage models have three different impacts. They firstly move a proportion of the population into joblessness. This creates inequality within the working population between the employed and the non-employed. Secondly, efficiency wages result in an increase in the wage rate that is higher than that of the return to capital, thereby decreasing inequality between wage earners and capital owners. Finally, inefficiency wages may change between- as well as within-country inequality when countries are open and not strictly identical. These three possible impacts are examined. A simple modelling of the operating mechanisms is proposed for the first two impacts, followed by a review of the literature on the third.

Michel Dumont

Is there a Trade-off between wage inequality and unemployment?

The paper investigates the literature upon the Inequality-Unemployment Trade-off (IUT). The IUT scenario was firstly exposed by Krugman (1994) to explain the observation of jobless Europe versus penniless America, i.e., high unemployment and low inequality in Europe against high inequality and low unemployment in the US. Chapter 5 firstly points to the fact that Krugman's scenario is at variance with observed developments when the analysis is not limited to the developments in the US versus continental Europe in the 1990s. The different theoretical bases of the IUT are subsequently exposed, from the rather straightforward autarkic neoclassical approach to the demand-supply-institution framework, to more complex models that introduce globalization and technical changes and distinguish between the impacts of different labour market institutions. Finally, the results of empirical works on the existence of an IUT are rather mixed. If it exists, the IUT must exhibit very uneven intensity across countries and periods.

3.2: Top Incomes

Agnieszka Markiewicz & K. Lansing

Welfare consequences of rising inequality from capital and labour incomes

This paper examines the welfare consequences of a slow-moving shift in the aggregate production technology that raises income inequality in a manner consistent with U.S. experience over the past three decades. We develop a general-equilibrium production model that is designed to approximate observed shifts in the shares of capital and labor income going to the top decile of U.S. households since 1980. We show that the welfare effects of the technology diffusion depend crucially on: (1) the degree of capital owners' foresight which affects perceptions of permanent income and the resulting saving response, (2) the source of income and (3) the degree of complementarity between physical capital and entrepreneurial labor. We find that the technology transition substantially benefits the welfare of capital owners while the welfare of workers may either rise or fall, depending mainly on the magnitude of the capital owners' saving response which in turn influences the equilibrium path of workers' wages.

Katharina Jenderny

Income Mobility of Top Incomes in Germany 2001-2006

This paper analyzes mobility of top incomes in Germany between 2001 and 2006. It uses microlevel panel data of income tax _les that is highly representative for top income households. Mobility of top incomes matters for both the openness of the income elite and the share of total income that this group receives. It is thus an important complement information to the growing snapshot literature on top income concentration. While top income mobility has been analyzed for several countries, it has not been assessed for Germany, where annual income concentration is comparably high. Mobility is high between top income fractiles. Medium term income concentration however remains high in comparison to other European countries.

3.3: Migration, Inequality & Poverty

Jesus Fernandez-Huertas Moraga & Hillel Rapoport

Tradable Immigration Quotas

International migration is maybe the single most effective way to alleviate poverty at a global level. When a given host country allows more immigrants in, this creates costs and benefits for that particular country as well as a positive externality for all those (individuals and governments) who care about world poverty. This implies that the existing international migration regime is inefficient as it fails to internalize such externality. In addition, host countries quite often restrict immigration due to its apparently unbearable social and political costs. However these costs are never measured and made comparable across countries. In this paper we first discuss theoretically how tradable immigration quotas (TIQs) can reveal information on such costs and, once coupled with a matching mechanism taking into account migrants' preferences, generate substantial welfare gains for all the parties involved. We then propose two potential applications: a market for the resettlement of international (e.g., climate change) refugees, and an extension of the US diversity lottery to a larger set of host countries and other immigration targets. Both applications are seen as possible precursors to a full implementation of a TIQs system.

Claire Naiditch

Remittances and incentive to migrate: An epidemic approach of migration

Migrants' remittances should be considered as one of the determinants of migration flows, since they have an economic impact on recipient economies, and can play a signaling role concerning the actual economic conditions in countries. In both cases, the decision to migrate may be interpreted as the result of a 'contagion' occurring through the receipt of remittances. We therefore use an 'epidemic model' to formalize such mechanisms, and include these feedback effects in the migrants' dynamics. This model allows us to understand the role played by various parameters including this contagion factor in order to appraise the impact of different public policies on the total number of migrants.

Florent Bresson & Jean-Yves Duclos

Intertemporal poverty comparisons

The paper deals with poverty orderings when the value of multidimensional attributes can be compared on a same scale, such as with income of different types or from different members of the same household. The dominance criteria extend the power of earlier multidimensional dominance tests (see Duclos, Sahn, and Younger 2006) by making (reasonable) assumptions on the relative marginal contributions of each dimensional attribute to poverty. The paper focuses on an important special case of this, that is comparisons of poverty over time. In contrast to earlier work on intertemporal poverty comparisons, this paper proposes procedures to check for whether poverty comparisons can be made robust to wide classes of aggregation procedures and to broad ranges of intertemporal poverty frontiers.

4.1: Globalization & Inequality 3

Pham Hanh

Intra-regional trade versus income inequality: Where do we stand by?

This paper reassesses the link between intra-regional trade and within income inequality. To do so, we employ a panel cross-section dataset of nineteen countries in the Asia-Pacific region - one of the most dynamic economic regions. Differing from the existing empirical literature, our econometric specification is based on the augmented gravity equations – a well-known application in the international economics field. We find that intra-regional exports can narrow within-country income inequalities, while the opposite tends to be true for intra-regional imports. Precisely, if intra-regional imports are considered as a main channel of new technology transfer, technological differentials and the skill biased nature of new technologies, in turn, may deteriorate within-income distribution (hypothesis developed by Aghion and Howitt, (1999)). Our findings also support the hump-shaped relationship between per capita GDP and within-country income inequality described by the Kuznets curve.

Daniela Harsch

Who Gains? Who Loses? New Evidence on Trade, Foreign Investment, and Wage Inequality

The effects of trade and foreign investment (FDI) on wage inequality are central to many current policy debates. However, one shortcoming of previous studies is that little is known about the actual degree of wage inequality across countries for comparable occupations. Using the newly standardized October Inquiry database allows to analyze the effect of trade and FDI on the degree of wage inequality across countries in a comprehensive way. To account for the endogeneity of trade, FDI, and wage inequality, I follow Frankel and Romer (1999). First, I find that trade activity causes an increasing wage inequality in the OECD, while results are not clear-cut for the EU. Second, there are significant negative effects of trade on the degree of wage inequality in non-manufacturing sectors. In contrast, I do not observe an increasing wage inequality in manufacturing sectors. Third, I do not find any significant effect of FDI on wage inequality.

Bernhard Michel & Bart Hertveldt

Offshoring and the Skill Structure of Employment in Belgium

This paper addresses the issue of the impact of offshoring on low-skilled employment for Belgium. Measuring skills by educational attainment, industry-level data show that there has been considerable skill upgrading of employment in Belgian manufacturing over the past 15 years. For this period, there is also evidence of increased offshoring where this is measured as the share of imported intermediates sourced from abroad. Offshoring of both materials and business services is on the rise in Belgian manufacturing industries. In order to determine to what extent offshoring has influenced the skill structure of labour demand in Belgium, we estimate an employment share equation for the low-skilled that is derived from a translog cost function and includes offshoring as well as variables accounting for technological progress. While the existing literature has focused exclusively on materials offshoring, we also take offshoring of business services into account and estimate its impact on low-skilled employment. In line with previous papers, we distinguish between materials offshoring to high-wage and low-wage countries. Furthermore, we investigate whether the impact of offshoring on the employment share of low-skilled workers differs between industries according to the technological content of their activity. Last but not least, almost all contributions in this field use a value measure of offshoring. As our dataset allows us to compute both constant price and current price measures of offshoring, we test for differences in their impact on the low-skilled employment share.

4.2: Inequality, Growth & Education

Natalia Kyui

Expansion of Tertiary Education, Employment and Wages: Evidence from the Russian Transition

This paper analyzes the effects of the educational system expansion on labour market outcomes. It explores the expansion of tertiary (i.e. post-secondary) education in the Russian Federation over the past 15 years, as a natural experiment. Regional changes in the number of university slots, as a result of educational reforms, provide an exogenous variation in access to higher education. Using simultaneous equation models, the influence of education on employment and wages is estimated for those who improved their educational attainment due to increases in educational opportunities. The estimation results, which are robust to changes in model specifications, suggest strong positive returns to education in terms of wages and employment. Considering this gradual increase in access to universities, the paper further estimates heterogeneous returns to education for individuals who were exposed to different degrees of expansion within higher education. The results reveal decreasing returns to education for those who subsequently complied with pursuing higher education, as access to the educational system became easier and easier. Moreover, a non-parametric estimation of the model with essential heterogeneity is undertaken, in order to identify marginal returns to higher education. Returns to education are found to be decreasing for lower levels of individual unobserved characteristics, which positively influence higher education attainment. Therefore, the expansion of the higher education system significantly increased the wages of those who were exposed to growing numbers of university slots. Nonetheless, this increase was smaller than the returns to education for those who would have pursued higher education anyway.

Adelaide Duarte, M. Simoes & J. Andradeb

A Regional Perspective on Inequality and Growth in Portugal Using Panel Cointegration Analysis

This paper examines the relationship between inequality and economic growth for thirty Portuguese NUTS3 regions within a multivariate panel framework over the period 1995-2007 using panel cointegration techniques to test for the existence of a long-run equilibrium relation between inequality and output. The results show that there is a long-run equilibrium relationship between the variables, where the effect of inequality, measured as the Gini index of the earnings distribution, on output is negative. This negative influence seems to be determined by the behavior of the bottom of the earnings distribution, with the results pointing to the coexistence of a positive impact of inequality at the top of the distribution. However, when the regional productive structure is taken into account, specifically the importance of the agricultural sector, the sign of the relationship between inequality at the bottom of the earnings distribution and output becomes positive. In regions where agriculture employs a higher share of the workforce inequality seems to act as an incentive for workers to move to more productive sectors, manufacturing and services, and is therefore beneficial to growth. Additionally, the results confirm the predicted positive relationship between human capital and output. Another interesting result concerns the relationship between structural funds and output that point to a negative long run relation.

Stéphane Lambrecht & Kirill Borissov

Education, Wage Inequality and Growth

We model a successive-generation economy in which parents, motivated by family altruism, decide to finance or not their offspring's capital accumulation on the basis of their altruistic motive, their own income and the equilibrium ratio between skilled-labor and unskilled-labor wages. The question we ask is how the growth process in this economy shapes the wage inequality and the split of the population in two classes, i.e. whether skilled and unskilled families coexist, especially in the long run. We study the transitional dynamics of human capital accumulation and of wage inequality, show that there exists a continuum of steady states equilibria and prove the convergence of the economy to this set of steady states. We look at the relationship between inequality and output on the set of steady states and find that this relationship is ambiguous. An extension of the model to account for endogenous growth displays the ambiguous relationship.

4.3: Technology & Inequality

Marta Guerriero & K. Sen	Revisiting the evidence on international trade, technological change and labour
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Recent evidence on functional income distribution suggests that the shares of capital and labour in national income vary considerably both over time and across countries. Specifically, there seems to be a general reduction in the labour share around the world, in particular from the mid-1980s onwards. Using fixed effects regression methods on a panel dataset covering 89 countries – both developing and developed – over the period 1970-2009, this study examines the mechanisms underlying the variability in the labour share. In particular, it focuses on the relationships between the labour share and measures of international trade and technological change. The results are robust across different specifications, for yearly data as well as 3- and 5- year averages, and after performing instrumental variable estimation. They suggest that trade openness and technological innovation have a positive and significant effect on the labour share. However, Foreign Direct Investments inflows and mechanisation seem to be negative drivers. Moreover, other factors, such as the level of economic development, education, and the strength of the regulations in the labour market, seem to also significantly influence functional distribution of income.

Ainhoa Urtasun & A. Ben-Ner	Computerization and Skill Bifurcation: The Role of Task Complexity in Creating Skill Gains and Losses
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Does computerization increase or reduce the extent of skills that workers are required to have? Autor, Levy and Murnane (2003) show empirically that adoption of computer-based technologies (CBT) was greater in industries historically intensive in routine tasks, and that computerization increased complex problem-solving and communication activities and reduced routine cognitive and manual activities. We extend this argument and argue that the effects of CBT are neither universal nor uniform, but a bifurcation emerges: occupations that historically (pre-computerization) required low skills and entailed low-complexity tasks do not experience a lot of CBT in their environment, or if they do, they remain low skill (or in extremis become less skilled) occupations, whereas historically high-skill occupations that entailed high complexity see much CBT as well as increases in the skills they require. We test these propositions in a unique dataset that includes measures of the degree of computerization and changes attendant to computerization in the level of seven skills of core employees (content, complex problem solving, etc.) for a sample of 819 firms in 2000. We link this dataset by core employees' occupation to US occupation-level data on three dimensions of task complexity (with respect to data, people and things) in 1971 (pre-CBT). We find that: (1) higher pre-CBT task complexity is associated with subsequent adoption and intensity of CBT; and (2) for occupations that were historically characterized by complex tasks, CBT affects most skills positively, but for simple tasks, CBT does not affect skills or affects them negatively. We replicate our analyses with the dataset and measures used by Autor, Levy and Murnane (2003) and obtain similar results. Our results shed light on the skill-based technological change and skilling-deskilling debates and suggest that the relationships are contingent in more nuanced ways than the literature has suggested.

Alberto Behar	The endogenous skill bias of technical change and inequality in developing countries
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Globalization and skill supply affect the extent to which technology adoption in developing countries favors skilled workers. Developing countries are experiencing technical change that is skill-biased (SBTC) because skill-biased technologies are becoming relatively cheaper to import. Increased skill supply further biases technical change in favor of skilled labor. Free trade induces technology that favors skilled workers in skill abundant developing countries and that favors unskilled workers in skill scarce developing countries and therefore amplifies the predicted wage effects of trade liberalization. These features explain the pervasive rise in inequality within almost all developing countries and the absence of a significant downward effect of expanded educational attainment on wages. They also help account for the large and differential effects of trade liberalization on the skill premium in developing countries.

5.1: Special session on the book *Growing Income Inequality* 3**Glenn Rayp**

Growing Inequalities, Globalization and Trade Unions

The paper addresses the issue of the interactions between union bargaining and globalisation and their impacts upon inequality. This impact is not direct. It goes through wage setting, which changes the distribution of income between wages and profits. Within monopoly union approaches, the theoretical literature shows that globalization influence wage setting through its impact upon the wage elasticity of labour demand. If this impact is positive (negative), globalization leads to a decrease (increase) in the real wage. In addition, the impact may be non-monotonic. The empirical literature that estimates the globalization-union power relationship is not directly related to the theoretical models. From different methodological approaches and using different data sources, the empirical analyses reveal a significant negative impact of globalization on the bargaining position of the trade unions, either because of falling quasi-rents or because of a negative effect on the unions' bargaining power.

Nathalie Chusseau & J. Hellier

Education, Intergenerational Mobility and Inequality.

The paper examines the impacts of the several dimensions of education upon intergenerational inequality persistency. It is firstly outlined that the critical increase in the population education level in all countries has not come with lower inequality. The basic tools of education and intergenerational mobility modelling are subsequently exposed (OLG, education functions, education decision making etc.). This is followed by two theoretical sections that analyse the cases in which education leads (i) to human capital convergence in the long term and (ii) to social stratification with the emerging of under-education traps (situations in which certain dynasties remain continuously under-educated). A simple modelling of both cases is proposed for two types of educational decisions, one based on the family expenditure on education and the other on the time spent for education. The factors that generate social stratification and under education traps are especially underlined. The empirical literature on the determinants of educational attainment and intergenerational mobility is finally reviewed. This reveals the crucial impact of family backgrounds on educational attainment in all countries. In addition, it demonstrates huge and lasting differences across countries in terms of intergenerational mobility.

Stéphane Lambrecht & J. Hellier

Inequality, Development & Welfare: The Main Links

We review the literature on the links between inequality, growth and welfare. Three questions are addressed: 1) What is the impact of growth and development on inequality? 2) What is the impact of inequality on growth, development and welfare? 3) What is the impact of pro-equality public policies upon growth and welfare? As regards the first question, the theoretical and empirical literature that analyses Kuznets hypothesis is firstly reviewed. The answer to the question of the impact of inequality on growth is twofold. Firstly, inequality fosters growth when this is based on capital accumulation, but it hinders growth when growth is based on human capital accumulation and when inequality-related social disturbances are considered. Identically, pro-equality public policies may engender very different effects upon growth depending on their influence on factor accumulation. These mixed impacts may explain the ambiguous findings provided by the empirical literature. If most of the estimates carried out in the 1990s seemed to confirm that inequality was damaging for growth, the 2000s empirical literature reconsiders this diagnosis but remains inconclusive.

5.2: Inequality in developing countries 1

Ousama Ben Salha	Economic Globalization, Wages and Wage Inequality in Tunisia: Evidence from the ARDL Cointegration Approach
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This paper seeks to test empirically the impact of economic globalization, i.e international trade and foreign direct investments, on the level and structure of real wages in Tunisia. On the one hand, we are interested in the effects of globalization on real wages in the whole economy, and then a special attention is given to the manufacturing sector. On the second hand, we analyze the effects of international trade and foreign direct investments on the evolution of wage inequality. To do this, the recently developed autoregressive distributed lag (ARDL) bounds testing approach is conducted on annual data covering the period 1970-2009. Our results reveal that trade liberalization positively affects the average wages only in the long-run. Nevertheless, FDI didn't exert any effects on real wages. The second finding is that trade openness and FDI positively affect the more exportable sector in the country, i.e. the textile, clothing and leather industry. Finally, this paper support the predictions of the HOS model since trade liberalization is found to reduce wage inequality between skilled and unskilled workers in both the short-run and the long-run.

Claudia Tello de la Torre	Changes in wage structure in Mexico going beyond the mean: An analysis of differences in distribution, 1987-2008
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This paper conducts an empirical analysis of the relationship between wage inequality, employment structure, and returns to education in urban areas of Mexico during the past two decades (1987-2008). Applying Melly's (2005) quantile regression based decomposition, we find that changes in wage inequality have been driven mainly by variations in educational wage premia. Additionally, we find that changes in employment structure, including occupation and firm size, have played a vital role. This evidence seems to suggest that the changes in wage inequality in urban Mexico cannot be interpreted in terms of a skill-biased change, but rather they are the result of an increasing demand for skills during that period.

Dennis Essers	Democracy and external shock resilience in developing countries: Evidence from the Great Recession
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Recent attempts to explain the heterogeneity of developing country growth during the 2008-2009 global economic crisis have paid little attention to politico-institutional differences between countries. This paper aims to bridge that hiatus by gauging empirically the effect of democracy on the growth performance of developing economies during the crisis. Using a large cross-section sample of non-advanced countries and controlling for macroeconomic, financial and standard institutional factors, as well as pre-crisis trends, we find robust evidence of a statistically and economically significant negative correlation between democratic country features and crisis growth rates. Endogeneity tests suggest this correlation is non-spurious.

6.1: Tax Policy, Redistribution & Inequality

Simone Salotti & Agnese Sacchi	The effects of fiscal decentralization on household income inequality: some empirical evidence
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In this paper we investigate the effects of fiscal decentralization on income inequality using a sample of 23 OECD countries over the period 1971-2000. We utilize novel and robust measures of fiscal decentralization based on different degrees of expenditure and tax autonomy of sub-central governments. Our results highlight the importance of both the nature of fiscal decentralization - expenditure versus taxation - and the extent to which responsibility and decision powers are actually assigned to local governments. An important finding is that a higher degree of tax decentralization is associated with higher household income inequality within a country. This suggests that even if fiscal decentralization could be attractive according to efficiency reasons, it may actually have undesirable consequences on the equity side.

Alejandro Corvalan	Subsidies for whom? The rule of $(G+1)/2$
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This note shows that for a society with inequality described by a Gini coefficient G , a pivotal individual is located in the $(G + 1)/2$ percentile: any dollar given to an individual poorer (richer) than himself decreases (increases) G . As a consequence, an optimal lump sum subsidy, in terms of the Gini index, is the one given to all individuals ranked below this percentile. We show that in 2/3 of the countries such an individual is within the eighth decile. This last result is robust to the use of other inequality measures, such as Theil indices.

Glenn Rayp , Merlevede, Van Parys & Verbeke	Do EU15 countries compete over labour taxes?
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Because of the high international mobility of firms, empirical research on international tax competition has mainly considered corporate taxation and competition in labour taxation tends to be overlooked. This may be unjustified. First, the tax base in labour taxation is the wage mass, which depends on employment. While labour is largely internationally immobile, jobs are not, because of the international mobility of goods. In addition, labour tax competition could have more important consequences for the provision of public goods or income redistribution than corporate tax competition. We model the possibility of labour tax competition using a standard Dixit-Stiglitz two-country model with transportation costs in exporting goods but immobile firms and workers, to which we add the assumptions of non-clearing labour markets and income redistribution by the government, financed by a tax on labour income. Based on this model, we derive an empirical specification of the labour tax reaction function, which is subsequently estimated for the EU15 member states. The tax reaction function is specified as a spatial lag panel and is estimated using an instrumental variable approach, in which the one and two period spatially lagged explanatory variables are used as instruments. Our results point to the presence of small but significant competition over labour taxes within the EU15 countries.

6.2: Gender, Discrimination & Inequality

Sarra Ben Yahmed

Gender Wage Gaps across Skills with Statistical Discrimination and Trade Openness

Several empirical studies have shown that the effect of openness on the gender wage gap depends on the skill requirement of the workplace. This paper offers a theoretical explanation for that finding. We integrate a statistical discrimination framework with the labour assignment approach to give general conditions under which the matching between firms and workers gives rise to a wider gender wage gap at the upper tail of the distribution. Workers' characteristics vary in two dimensions, skills and labour market attachment. The inability to observe individual's labour market attachment induces employers to base partly their decision on group average. Firms simultaneously choose their technology and the workers they hire. Following the literature on labour and international trade, we assume that skills act as complements to technological upgrading. Exporting firms that are more productive, are also more skill-intensive and pay higher wages ; assuming further that worker's job commitment is a complement to technological upgrading, we find that a reduction in trade costs increases the gender wage gap among high-skill workers, in line with empirical evidence.

Gwenn PARENT & E. Martinez

Middle class determinants in Latin America (2000-2010): A gender perspective.

This paper investigates the determinants of middle class using multinomial probit modeling the likelihood of being poor (living below 50% of national median income), middle class (between 50% and 150%) or affluent (above 150%) and related gender specific effects for six Latin American countries (Argentina, Bolivia, Chile, Colombia, Mexico and Peru). The analysis finds that middle class determinants in Latin America do not differ significantly from poverty ones, although with weaker effects. Female heads of households mostly belong to the poor and middle class. All countries show a similar pattern, with the older heading wealthier households. As expected, education remains a powerful, although with weakening over time, determinant of income classes belonging: primary education determines poor and middle class status while secondary and tertiary education increases the likelihood of being affluent. The only noticeable difference between poverty and middle class determinants concerns employment characteristics (activity status): heads of household being unemployed, inactive or working in agriculture or public and social services leads household to be poor (but not middle class nor of course affluent). On the contrary, other household's members being unemployed or inactive leads households to be poor or middle class. Self-employment is another important determinant of poverty but not of middle class. Adopting a gender perspective using two alternative specifications of multinomial probit, the analysis finds that (i) female headed households more often belong to the poor and middle sector (ii) education benefits them more than their male counterparts (iii) and they suffer less from being unemployed or inactive (in a majority of the sample countries). Husbands' characteristics have a greater impact on household's income class belonging than their spouses' characteristics. Spouses being inactive or self-employed are determinants of poverty and middle class while their counterpart husbands are only determinants of poverty. Somehow strikingly inactive as well as active spouses are negatively impacted by their husbands not working (inactive or unemployed). Indeed in terms of husbands characteristics' effect on spouses, no noticeable differences are found between countries where spouses are mostly active (such as in Bolivia and Peru) and countries where they are mostly inactive (such as in Chile).

Christopher Rauh & R. Ramachandran

Discrimination Without Taste - How Discrimination Can Spillover and Persist

Minorities in many countries have been found to have lower participation rates in self-employment. In this paper we introduce beliefs as a channel of persistent discrimination in self-employment despite perfect observability of individual ability. In the theoretical model individuals can become workers or entrepreneurs, where entrepreneurs require the establishment of productive relations. An exogenous shock causes a temporary taste for discrimination amongst few principals against a certain group of individuals. The resulting discrimination negatively affects others through strategic complementarities in productive relations an individual requires to setup an enterprise. Discrimination precipitates across the economy through coordination failures driven by beliefs conditioned on observed discrimination. As a result the discriminated group might persistently have lower participation rates and payoffs from self-employment, even after no more taste for discrimination exists in society. We complement our theoretical model with an empirical exercise, indicating that beliefs about discrimination can lead to lower self-employment rates among blacks in the US, and taste for discrimination is not a significant predictor.