

ECONOMIC AND SOCIAL RESEARCH COUNCIL END OF AWARD REPORT



For awards ending on or after 1 November 2009

This End of Award Report should be completed and submitted using the **grant reference** as the email subject, to **reportsofficer@esrc.ac.uk** on or before the due date.

The final instalment of the grant will not be paid until an End of Award Report is completed in full and accepted by ESRC.

Grant holders whose End of Award Report is overdue or incomplete will not be eligible for further ESRC funding until the Report is accepted. ESRC reserves the right to recover a sum of the expenditure incurred on the grant if the End of Award Report is overdue. (Please see Section 5 of the ESRC Research Funding Guide for details.)

Please refer to the Guidance notes when completing this End of Award Report.

Grant Reference	RES-167-25-0121		
Grant Title	Trade Liberalisation, Job Reallocation and Poverty: Employment and Earning Losses after Worker Displacement		
Grant Start Date	27 October 2008	Total Amount	£183,940.20
Grant End Date	30th April 2010	Expended:	
Grant holding Institution	Harvard University		
Grant Holder	Professor Maurice Kugler		
Grant Holder's Contact Details	Address	Email	
	Harvard Kennedy School 79 JFK St. Cambridge, MA 02138 U.S.A.	maurice_kugler@harvard.edu	
		Telephone	00 1 (617) 462 4296
Co-Investigators (as per project application):		Institution	

1. NON-TECHNICAL SUMMARY

Please provide below a project summary written in non-technical language. The summary may be used by ESRC to publicise your work and should explain the aims and findings of the project. *[Max 250 words]*

In our previous work we have found that the pace of reallocation of outputs and inputs across businesses is very high in Colombia and contributes significantly to productivity growth. A large fraction of productivity growth is accounted for by reallocating resources away from less productive contracting and exiting businesses towards more productive entering and expanding businesses. In the long-run, the higher aggregate productivity may generate pro-poor growth. Yet, before the long-term efficiency gains materialise, there is a transition during resource reallocation. For the labour market, the efficient churning of businesses implies a need to reallocate jobs at a high pace. This churning is, however, not without costs. The downside of the churning is that workers must relocate. The empirical literature shows that even in the most advanced economies such relocation is costly and the relocating workers bear a disproportionate share of such costs. In the case of trade liberalisation, the workers bearing such costs are likely to be relatively unskilled and therefore at the lower end of the income distribution. In developing countries, where those receiving the minimum wage barely meet basic needs, earning losses and long unemployment spells can generate vulnerability to poverty. In particular, in the absence of training programmes for the jobless and adequate unemployment insurance, skill atrophy may generate persistent displacement for workers previously in plants shedding employees due to increased international competition.

2. PROJECT OVERVIEW

a) Objectives

Please state the aims and objectives of your project as outlined in your proposal to the ESRC. *[Max 200 words]*

The trade-off between flexibility, productivity, efficiency, and growth, on the one hand, and job security, on the other, is amongst the most debated and fundamental issues in market economies. These issues loom especially large in Latin American economies, where various reforms were undertaken during the 1990s, speeding up the pace of reallocation, but where safety nets to protect against unforeseen shocks are minimal. In the research, we concentrate on the costs of such reallocation to workers in Colombia, a country that implemented extensive reforms aimed at improving efficiency in the economy. We quantify the costs of reallocation by, first, examining earnings losses and unemployment experiences of workers displaced from closing and contracting businesses, and then by examining earnings changes for workers who continue to be employed in contracting businesses. Estimating displacement costs in the context of large policy changes in the Latin American context yields potential lessons for other developing countries. Aside strengthening of social safety nets, policies to adjust worker skills and to induce job creation can substantially reduce the prospect that persistent worker displacement generates poverty. We disseminate our findings both in academic conferences and seminars as well as in presentations at multilateral organizations and local government institutions.

b) Project Changes

Please describe any changes made to the original aims and objectives, and confirm that these were agreed with the ESRC. Please also detail any changes to the grant holder's institutional affiliation, project staffing or funding. *[Max 200 words]*

N/A

c) Methodology

Please describe the methodology that you employed in the project. Please also note any ethical issues that arose during the course of the work, the effects of this and any action taken. *[Max. 500 words]*

The first component of our analysis uses a unique and rich micro dataset on firms and workers in Colombia to study the impact of the policy reforms of the last couple of decades on job reallocation. We construct job creation and job destruction measures for continuing as well as for entering and exiting plants over the 1980s and 1990s, and explore how the job reallocation process was affected by the reform process. In terms of the time variation of reforms, we exploit sectoral level tariff data, to address the question of how the trade liberalization process affected displacement during this period in Colombia. The second and primary component of our analysis matches these rich statistics on job reallocation by sector, location, and year to data on workers from the Colombian Household Surveys for the 1980s and 1990s to examine the implications of reallocation on workers outcomes. First, we will examine the implications of large job displacement events (i.e., displacement of more than 20% of the workforce) on workers' unemployment spells, wage losses and future job quality as measured by non-wage benefits, tenure, and formal status of job. We will also examine whether the average workers' losses vary by demographic characteristics (e.g., age and gender), by the source of job destruction (i.e., contraction of continuing businesses or exit of businesses), by the extent of simultaneous job creation in the displacing industry or by whether workers are able to find new employment in the industry of their former employer, and by conditions of their local labour market when they are displaced.

d) Project Findings

Please summarise the findings of the project, referring where appropriate to outputs recorded on *ESRC Society Today*. Any future research plans should also be identified. *[Max 500 words]*

There is widespread evidence on the positive effects of trade opening on reallocation and productivity in both developed and developing countries. However, much less is known about the effects of trade on workers displaced due to trade-related reallocation in developing countries. In this research, we consider the impacts of a large trade reform on worker's wages, employment and unemployment spells in Colombia. Using the National Household Surveys for the years 1988 to 1998, we find that workers employed in less protected sectors earn lower wages, are less likely to be employed in the formal sector and have shorter tenures, after controlling for individual characteristics and year and sector effects, and that these effects are bigger for less-educated workers. In addition, we find that workers displaced due to plant closings during the period of trade liberalization also have lower wages and tenure and are less likely to be employed in the formal sector within the first two years after displacement, but that

their wages, and quality and duration of employment recovers after three years of displacement. The time of recovery after displacement is faster than what is observed in the U.S. and other developed countries. On the other hand, we find that workers coming from less protected sectors experience shorter spells of unemployment, especially when they stay in the same sector and unemployment rates are low. Since trade opening hurts those currently employed but facilitates reallocation for those who end up unemployed, we also examine the overall effect of trade on household income using quantile regressions. Interestingly, we find that lower tariffs reduce household income only for female-headed households in the first two quintiles of the income distribution.

e) Contributions to wider ESRC initiatives (eg Research Programmes or Networks)

If your project was part of a wider ESRC initiative, please describe your contributions to the initiative's objectives and activities and note any effect on your project resulting from participation. [*Max. 200 words*]

N/A

3. EARLY AND ANTICIPATED IMPACTS

a) Summary of Impacts to date

Please summarise any impacts of the project to date, referring where appropriate to associated outputs recorded on *ESRC Society Today*. This should include both scientific impacts (relevant to the academic community) and economic and societal impacts (relevant to broader society). The impact can be relevant to any organisation, community or individual. [*Max. 400 words*]

Presentation of research results in 3rd annual joint meeting of the European Association of Labour Economists (EALE) and the Society of Labor Economists (SOLE) in London on June 19th.

b) Anticipated/Potential Future Impacts

Please outline any anticipated or potential impacts (scientific or economic and societal) that you believe your project might have in future. *[Max. 200 words]*

Presentation of research results in 3rd annual joint meeting of the The Latin American and Caribbean Economics Association (LACEA) and the Econometrics Society in Medellin in November.

Dissemination and publication of research results in academic media and fora.

You will be asked to complete an ESRC Impact Report 12 months after the end date of your award. The Impact Report will ask for details of any impacts that have arisen since the completion of the End of Award Report.

4. DECLARATIONS

Please ensure that sections A, B and C below are completed and signed by the appropriate individuals. The End of Award Report will not be accepted unless all sections are signed.

Please note hard copies are NOT required; electronic signatures are accepted and should be used.

A: To be completed by Grant Holder

Please read the following statements. Tick ONE statement under ii) and iii), then sign with an electronic signature at the end of the section.

i) The Project

This Report is an accurate overview of the project, its findings and impacts. All co-investigators named in the proposal to ESRC or appointed subsequently have seen and approved the Report.	X
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ii) Submissions to *ESRC Society Today*

Output and impact information has been submitted to <i>ESRC Society Today</i> . Details of any future outputs and impacts will be submitted as soon as they become available.	<input type="checkbox"/>
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OR

This grant has not yet produced any outputs or impacts. Details of any future outputs and impacts will be submitted to <i>ESRC Society Today</i> as soon as they become available.	X
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OR

This grant is not listed on <i>ESRC Society Today</i> .	<input type="checkbox"/>
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iii) Submission of Datasets

Datasets arising from this grant have been offered for deposit with the Economic and Social Data Service.	X
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OR

Datasets that were anticipated in the grant proposal have not been produced and the Economic and Social Data Service has been notified.	<input type="checkbox"/>
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OR

No datasets were proposed or produced from this grant.	<input type="checkbox"/>
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