

Linking Our Lives - Episode 12

Household responses to trade shocks

SUMMARY KEYWORDS

Shocks, responses, men, women, labour market, occupations, household, workers, research, partners, competition, Longitudinal Study, self-employment, labour, evidence, China, work, trade, industries, exposed.

SPEAKERS

Christine Garrington, Dr Aitor Irastorza-Fadrique

Christine Garrington 00:00

Welcome to Linking our Lives England and Wales since 1971 a podcast about the ONS Longitudinal Study. I'm Chris Garrington, and in this series, on behalf of CeLSIUS, which supports researchers who use information from the study, I'm investigating how it makes a difference to the work of policy makers and society. In this episode, I'm delighted to be joined by Dr Aitor Irastorza-Fadrique from the Institute for Fiscal Studies. He's been using the ONSLS to look at how the rapid growth of Chinese imports in the 2000s has impacted on individuals and their households in England and Wales. So Aitor, I wonder if you can start by telling us a little bit more about the sort of the global economic context to this research, just to set the picture for us.

Dr Aitor Irastorza-Fadrique 00:44

The context is that in which, at the time, low-income countries such as China started to play a role, started to gain relevance in international trade. So here we are talking about the late 1990s, early 2000s. To be more precise, China joined the WTO, the World Trade Organization in December 2001 and since then its emergence as a manufacturing and exporting powerhouse has been remarkable. For those of us doing research in labour economics, China's growth has provided an opportunity to study the impact of a large trade shock on employment outcomes in different countries. We also refer to this as the China shock. And why do we say, why do we think this is a shock? Well, you can think that many products that we use in our everyday lives, such as video games or clothes previously produced in countries like the UK will now be imported from China, making some industries, and hence people working in those industries much less competitive and in some cases redundant. So we wanted to understand what trade shocks mean for workers and their households and how they react, how they respond.

Christine Garrington 01:56

Okay so that's the context very, very clearly outlaid. Thank you very much. What was it then, more specifically, that you wanted to dig into, look at and better understand in this context?

Dr Aitor Irastorza-Fadrique 02:07

We wanted to study the adjustment mechanisms of workers and their families in response to increased input competition in the 2000s. So earlier work using a local labour market approach has documented that local places, local areas with higher exposure to Chinese input competition, experience larger reductions in manufacturing employment. At the individual level evidence shows significant negative, persistent effects on earnings and employment trajectories of affected workers. In this project, however, we put the focus on households rather than

just individuals, because we wanted to investigate if insurance can be provided throughout changes in partners labour supply, adopting a household level perspective also means that we are able to better understand gender differences. So for example, we could see if uncertainties induced by greater exposure to input competition could lead to changing a specialization within the house

Christine Garrington 03:03

Now you used the ONSLS for this research, which is why we've invited you onto our podcast. What information does it give you access to that makes this sort of research possible? It's an amazing resource, right?

Dr Aitor Irastorza-Fadrique 03:15

Let me briefly describe the data, and then I'll tell you why it's useful for our project. So the Office of National Statistics, Longitudinal Study, the LS, links Census records for a 1% sample of the population in England and Wales. And that's approximately 500,000 people. It started in 1971, happening every 10 years. So 1981, 1991, 2001 and 2011 the data contains social demographic variables, including age, sex, marital status, location, as well as data on employment, occupation and industry. LS is particularly appropriate to our research question for several reasons. First of all, it's a panel, and that means that we can track individual circumstances. So for most of our analysis, we are going to be using 2001 and 2011, but we go back to 1981 and 1991 for placebo and robustness. Second advantage, the LS includes not only individuals who are employed, but also those who are self-employed or out of the labour force. And those out of the labour force also report the reason they are not working. That could be either, because they are studying, they are sick, they are retired, etc. And that's important because administrative data sources often don't include this information. And finally, the longitudinal study includes data on core residents of study numbers, the husband, the wife, children, whoever lives in that household, and this allows us to study family level survival responses in this context.

Christine Garrington 04:44

Right so lots and lots of great information for you to work with. And the first thing you looked at was how this rapid growth in Chinese imports that you referred to earlier on impacted people's jobs, tell us about that

Dr Aitor Irastorza-Fadrique 04:56

We find that workers initially employed in the. Industries exposed to Chinese input competition were less likely to be employed in manufacturing and more likely to be unemployed 10 years after in 2011, relative to similar workers initially employed in industries not exposed to Chinese input competition. That is, these workers were more likely to exit manufacturing and reallocate to non-manufacturing sectors. When we look at occupations, we see that trade exposed workers were more likely to shift out of blue-collar occupations and move into low skill, typically lower paid occupations. And these results are consistent with findings that workers exposed to the China shock even conditional on employment, experience lower earning growth, and that has been already documented, the US Denmark or Germany. Looking at it, heterogeneity by gender, we see self-employment and delay retirement playing a role for men, but not women. That is, we find evidence that self-employment acted as an employment buffer for men, making some of them remain at work following the shock. But we don't find evidence of such a buffer effect with it. Similarly, we see that all men, those above 45 exposed to input competition, were more likely to be economically active compared to not exposed all men. And the key reason for high rates of economic activity was the reduced probability of retirement tariffs. They tended to delay retirement and stay longer in the labour market.

Christine Garrington 06:30

Do you have any thoughts as to what might be driving this?

Dr Aitor Irastorza-Fadrique 06:32

This could be partially driven by the increase in self-employment. Some work by IFS colleagues, shows all the self-employed workers are more likely to remain in work relative to employees. Or another reason to delay retirement might be to compensate for reduced earnings as they move to less rewarding occupations, and in this case, also we fail to find such an effect on retirement for women. When it comes to the impact of import competition on divorce and partnering, we also see differences by gender. For men we don't find evidence for the effects on the marriage rates for those who were initially unmarried or on the divorce rates of those initially married. For women below 45 though, we find that import competition led to a reduction in the likelihood they got divorced, as well as in the likelihood they found and cohabited with a new partner.

Christine Garrington 07:26

Can you tell us a little bit about whether you found those findings surprising in any way, or were they pretty much as you and your colleagues expected?

Dr Aitor Irastorza-Fadrique 07:36

I would say, depends on which country you take as a comparison. So the evidence for England and Wales seems to be more consistent with the evidence observed Denmark or Germany, where they also found lower divorce rates for women in response to the China shock. Compared to the evidence observing the US, where they found that US local places, US local areas more exposed to import competition saw significantly lower marriage rates, mainly coming from reduced marriage market value of men, higher single motherhood and lower fertility. So in this sense, I guess the UK and Europe respond differently to the US.

Christine Garrington 08:18

And then there were some interesting findings weren't there around how these trade shocks affected the jobs of people's partners. Talk us through what you found there?

Dr Aitor Irastorza-Fadrique 08:26

Yeah, sure, and that's one important advantage of using the Longitudinal Study. We can look at what happens within a household when any of the partners is employed in an industry exposed to import competition. So in this part of the paper, we focused on what we call stable couples. That is couples, heterosexual couples, who were together in 2001 and 2011. So first, in households where the man was shocked, we find no evidence that women were more likely to enter or stay in the labour force, irrespective of whether young children were present in the household. That is, we fail to find any kind of added worker effect for women.

Christine Garrington 09:06

So what might explain that?

Dr Aitor Irastorza-Fadrique 09:08

Women's labour market responses are restricted by gender norms, social norms, that men should be the breadwinners in the couple, particularly if increasing labour supply would make the woman the couple's main earner. Another potential explanation is that the UK unemployment benefit system, which was based on means tested benefits over the period of analysis, 2001, 2011 created these incentives for women to enter the labour market if the male partners lose their jobs. Now the results are quite different when it comes to the responses of men in households where the women were exposed to import competition. Here we find that the male partners of women in trade export industries increased their labour supply, with the effect being higher for all men who saw greater reductions in inactivity in response to shocks affecting their female partners. So to take in together that increased activity at other ages by men seems to be a way of dealing with the challenges posed by import competition, whether they arrive throughout shocks affecting men directly or through shocks affecting their partners.

Christine Garrington 10:12

Right so in conclusion, I guess it seems that men and women respond quite differently to these so called trade shocks. And I wonder what you and your colleagues make of that?

Dr Aitor Irastorza-Fadrique 10:23

Well that brings us to the following question, which is, why this happened? How can we explain these gender differences? So in some work in progress, we first investigate whether differences in occupational choices or employment status between men and women contribute to the identifying and the disparity. And the short answer is no. Even after accounting for this, so even after accounting for the fact that more women work part time or more men were employed in blue collar occupations relative to women, the difference is possessed. Second, we explore the plausibility of a retreat to family scenario, examining whether trade shocks led to an increase in fertility rates. And we don't find evidence for this. And finally, we study potential disparities in self-employment opportunities between genders, so we show some evidence of the type of self-employment in response to the shock, which took mainly the form of solo self-employment in male dominated occupation. So yes, to be more precise here we are talking about bumpers, taxi drivers, etc, and that could be explaining why you find this attachment path more appealing to men than women.

Christine Garrington 11:30

So time for the million dollar question then, Aitor, I wonder what implications there are for policy, indeed society more broadly from this research, would you say?

Dr Aitor Irastorza-Fadrique 11:41

Understanding how workers and the families adapt to economic shocks and how responses differ across them, it's going to be important for designing appropriate policy responses. So on the one hand, our analysis highlights important differences by chapter, it means that policy responses will likely need to be different depending on whether economic shocks happen to be male dominated or female dominated industries. It also highlights that it's important to identify who gets family insurance and who doesn't. So that individuals without strong intra household insurance are likely to be more in need of public insurance. And finally, I'd say that by providing evidence for England and Wales, we also show responses are different relative to other countries like the US, which again highlights the role that institutions and little market characteristics might play.

Christine Garrington 12:32

So Aitor, really important, really policy relevant work. Any plans to take it forward and to do more in this area?

Dr Aitor Irastorza-Fadrique 12:39

Yeah so moving forward and hopefully we can get soon the new wave, so the 2021 Census. That means that we're going to be able to have a look at children, and that's important when it comes to thinking about intergenerational dynamics that could be going between local labour markets. So we want to have a look to children of parents that were affected by the China shock, and see whether this has any impact on education, on internal migration, etc. So moving forward, we plan to extend beyond local level markets of both affected and partners, and have a look to check.

Christine Garrington 13:17

Household responses to trade shocks is researched by Aitor Irastorza-Fadrique, Peter Lavelle and Matthias Parry, and is published as an IFS working paper. Linking our Lives is produced by CeLSIUS, a ESRC, funded service at UCL. Find out more on the CeLSIUS website and follow us on Twitter at @CeLSIUSNews, or get in touch by email at CeLSIUS@ucl.ac.uk.