



ELSEVIER

Journal of International Economics 59 (2003) 239–265

Journal of
INTERNATIONAL
ECONOMICS

www.elsevier.com/locate/econbase

Job creation, job destruction, and the real exchange rate

Michael W. Klein^a, Scott Schuh^{b,*}, Robert K. Triest^b

^aFletcher School, Tufts University, Medford, MA, USA and NBER

^bFederal Reserve Bank of Boston, Boston, MA, USA

Abstract

Welfare gains from trade are reduced by adjustment costs associated with factor reallocation, but most studies of the effects of trade on labor markets focus only on net employment change. This paper takes a step toward identifying trade-related adjustment costs by estimating the effects of real exchange rates on labor reallocation using a new model of gross job creation and destruction applied to detailed U.S. manufacturing industries between 1973 and 1993. Trend real exchange rates significantly affect job reallocation but not net employment. Cyclical real exchange rates significantly affect net employment through job destruction only.

© 2002 Elsevier Science B.V. All rights reserved.

Keywords: Real exchange rates; Gross job flows; Openness

JEL classification: F4

1. Introduction

Welfare gains from international trade are obtained through the reallocation of resources to their most productive uses. Reallocation is not costless, however, and a full understanding of the overall impact of trade must consider both efficiency benefits and adjustment costs. Indeed, much of the debate over the net benefits of openness to international trade concerns the size of these adjustment costs, especially those arising from changes in employment and wages.

*Corresponding author. Tel.: +1-617-973-3941; fax: +1-617-619-7541.

E-mail addresses: michael.klein@tufts.edu (M.W. Klein), Scott.Schuh@bos.frb.org (S. Schuh), Robert.Triest@bos.frb.org (R.K. Triest).

One source of internationally generated labor market adjustment costs is movements in real exchange rates. Real exchange rates influence employment within and between industries for two reasons. First, real exchange rates exhibit large swings that significantly alter the relative prices of internationally traded goods. Second, movements in bilateral real exchange rates generate a wide range of responses within traded-goods industries because trade patterns differ markedly across industries. In addition, firms' exposure to international competition varies widely, even within narrowly defined industries (see Bernard and Jensen, 1995).

Most prior attempts to quantify trade-related adjustment costs in labor markets have focused on the response of total manufacturing employment to changes in international factors, such as the real exchange rate or trade agreements (tariffs, quotas, etc.).¹ These studies typically find that manufacturing employment declines in response to an appreciation of the real exchange rate, and these employment declines are viewed as one facet of adjustment costs.²

However, the response of total employment to real exchange rate movements significantly understates the full magnitude of labor reallocation. Total manufacturing (or industry-level) employment represents the net result of gross job creation—total employment gains in expanding establishments—and gross job destruction—total employment losses in contracting establishments—occurring in the economy. Gross reallocation of jobs across production sites is the sum of gross job creation and destruction occurring simultaneously, even within detailed industries. Davis et al. (1996) report that average U.S. manufacturing net employment growth is only about –1 percent per year whereas job reallocation is about 19 percent per year.

These facts highlight the importance of gross job flows. This paper studies the impact of real exchange rate movements on gross job flows. We present a model of industry-level employment dynamics characterized by simultaneous job creation and destruction at heterogeneous firms. We then estimate econometric models that quantify the impact of industry real exchange rates on gross job flows at the 4-digit SIC level in U.S. manufacturing for 1974–1993.

We find strong evidence that movements in real exchange rates significantly affect gross job flows in U.S. manufacturing. Our results are most striking when we decompose movements in real exchange rates into trend and cyclical components. Movements in trend real exchange rates significantly affect both job creation and destruction in the same direction by similar magnitudes, thus they

¹For studies on exchange rates, see Grossman (1982), Branson and Love (1988), Revenga (1992), Sachs and Shatz (1994), Burgess and Knetter (1998), Goldberg and Tracy (2000) and Campa and Goldberg (2001). See Treffler (2001) for a recent study focused on trade agreements.

²The focus on manufacturing is motivated primarily by data availability, but manufacturing continues to account for the bulk of total U.S. trade (export plus imports). Contrary to the conventional view that manufacturing is declining rapidly in importance, manufacturing's share of total trade was relatively steady during our sample: 0.81 in 1975, 0.79 in 1985, and 0.78 in 1995 (see Table B-104 in the *Economic Report of the President*, February 2000, p. 426.).

متن کامل مقاله

دریافت فوری ←

ISIArticles

مرجع مقالات تخصصی ایران

- ✓ امکان دانلود نسخه تمام متن مقالات انگلیسی
- ✓ امکان دانلود نسخه ترجمه شده مقالات
- ✓ پذیرش سفارش ترجمه تخصصی
- ✓ امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
- ✓ امکان دانلود رایگان ۲ صفحه اول هر مقاله
- ✓ امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
- ✓ دانلود فوری مقاله پس از پرداخت آنلاین
- ✓ پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات