

## PUBLIC POLICY CAN DO LITTLE FOR THE UNSKILLED

A common proposal to remedy rising inequality between skilled and unskilled workers is to endow less skilled workers with more skills through education and retraining. But even if well-targeted public policies could boost the national relative supply of skilled workers, in open trading economies, the remaining unskilled workers will almost certainly not see an increase in their wage relative to skilled workers. That is the conclusion of Professor **Matthew Slaughter** of Dartmouth College and NBER, writing in the September issue of the *Economic Journal*.

In an analysis of the relative impact of trade and technology on labour market adjustment, Slaughter explains that with trade, economies tend to absorb changes in national labour supplies not through changes in wages but through changes in the mix of products produced and sold to the rest of the world. This logic also applies to immigration policies: with trade, restricting new immigrant inflows or expelling current immigrants is unlikely to do anything to support the wages of native unskilled workers.

Slaughter goes on to suggest that policies aimed at labour demand are also likely to be ineffective in tackling inequality, regardless of the relative importance of international trade and technological innovation in reducing demand for unskilled workers.

Both 'trade and technology' generate aggregate gains for society, even in cases where they hurt particular groups within society. In the light of these aggregate gains, redistributive policies that restrict trade or innovation would incur unacceptably high costs on society overall. Thus, policy-makers interested in helping the unskilled do not need to know whether the technology-trade split is 90-10 or vice versa in terms of their relative impact on labour demand.

Slaughter notes that in the United States, real wage growth has stagnated and wage differentials between skilled and unskilled labour have increased over the last 15 years. In Western Europe, employment adjustments have been more evident with marked increases in unemployment, but also some increase in skilled-unskilled differentials. These developments have generated a substantial economic research programme, an important ingredient of which has been to evaluate the role of trade: specifically, has the growth of trade in general and trade with low wage developing countries in particular been responsible for these developments?

Slaughter surveys recent research on trade's contribution to rising wage inequality between skilled and unskilled workers. He notes that there is a strong consensus that an important factor in rising inequality has been shifting relative labour demand away from the less skilled and towards the more skilled. Yet there remains no clear consensus about what caused the demand shift. Most studies have concluded that trade accounts for somewhere between 0% and 20% of rising inequality.

**Note for Editors:** ‘International Trade and Labour Market Outcomes: Results, Questions and Policy Options’ by Matthew J Slaughter is published in the September 1998 issue of the *Economic Journal*. Slaughter is Professor of Economics at Dartmouth College, 309 Rockefeller Hall, Hanover, NH 03755, USA.

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