Sluggishness of Unskilled Labor and the Doha Round

Isabel Teichmann
Tani Fukui
Unskilled Labor Sluggishness

• Motivation:
  – Unskilled labor may have difficulty switching across sectors, particularly in the short run

• Examples:
  – Rural-urban migration takes time and money
  – Frictions in the labor market: search costs, information problems, labor market regulations
Unskilled Labor Sluggishness

• The experiment:
  – Use the experiment that models Doha Round
    • Closure in Doha Round assumes unemployment in unskilled labor in developing countries
  – Create sluggishness: change elasticity of substitution of unskilled labor mobility

• Compare the sectoral effects in Egypt of unskilled labor mobility with sluggishness
Unskilled Labor Sluggishness

Implementation:

• Switched unskilled labor from perfectly mobile factor to sluggish factor
  – Set indicator variable SLUG to 1 for unskilled labor (turns on factor sluggishness)
  – Set elasticity ETRAE(unskilled) to -0.2

• Note: ETRAE is constant for all countries and all sectors
Unemployment decreases in both scenarios

Mobile: $q_o(\text{unsk}, \text{Egypt}) = 0.28\%$

Sluggish: $q_o(\text{unsk}, \text{Egypt}) = 0.30\%$
pfe(unskilled,j,Egypt)
qfe(unskilled,j,Egypt)
Unskilled labor in the wheat sector

pfe

qfe
Example: market clearing in wheat

[Diagram showing labor demand (Ld) and labor supply (Ls) curves intersecting at a point indicating market equilibrium, with axes labeled 'wages' on the vertical axis and 'quantity of unskilled labor' on the horizontal axis.]
Example: market clearing in apparel
Thank you!