Report on

"International Trade and Polarization in the Labor Market"

by Satya P. Das

The paper analyzes the role played by international trade in the polarization of employment in the labor markets of developed economies. The author uses a two-sector, three-factor SOE trade model as the starting point for the analysis. The three factors (land to be added later) are unskilled, medium, and high-skilled labor, where the decision to be become skilled (either medium or high) is endogenous. Assuming that unskilled and medium-skilled labor are prefect substitutes, the paper shows that an increase in the world-market relative price of the high-skill intensive good leads to a more convex wage structure, ie the skill premium of high-skilled vs. medium-skilled labor increases. Switching to a specific factors model with land, in addition to high-skilled labor, as the specific factors, and still assuming that unskilled and medium-skilled labor are perfect substitutes, the same result obtains. Dropping perfect substitutability but adding a non-traded unskilled-labor-intensive sector, the effect on the convexity of the wage structure becomes ambiguous, yet the employments shares still increase at the top and at the bottom. The author subsequently extends the analysis by adding a credit market, focusing on credit market imperfections in the form of a wedge between lending and borrowing rates. He shows that the initial result is weakened yet still holds qualitatively, as long as the imperfection is not too large. He finally allows for off-shoring of the three types of tasks (low, mediaum, high-skilled) and anlayzes the productivity and supply effects and finds effects similar to Grossman/Rossi-Hansberg.

The paper addresses the polarization that has been observed in developed economies' labor markets and explores how trade and off-shoring may have contributed to it. I find this a valuable direction for research. This said, I have a few issues with the analysis presented in the paper.

The first regards the modelling framework, in particular the preferences of the agents. The author starts by specifying indirect utility as $\pi(p)(\theta w_j - C_E)$ (page 8), only to switch to equation (2) two pages later. The difference between the two is visible in figures 3 and 4. Whereas the former formulation is standard and has been used in this context before, the second formulation — which the author subsequently adopts — is non-standard. And I fail to see the benefit of introducing income as a signal in a trade context. Do the results presented in the paper depend

on this particular feature of the model? If the answer is positive, it casts doubt on the robustness of the results; if it is negative, then why make this rather unusual assumption.

My second concern is the various changes in setup made throughout the paper. At first the author assumes three factors, namely three different skill-levels of labor. Then he assumes prefect (not quite perfect, in fact) substitutability between the low and medium type which raises the question why we don't call this the same factor. Subsequently we add another factor, land, make factors specific, add a credit markets, and render it imperfect again. The reader is left wondering which one is relevant exactly when. As readers, we certainly do not expect the author to deliver the one-and-only true model, but we would like to know under which circumstances which of the different sets of assumptions are most relevant.

The third point, finally, regards the value added of the paper. Three types of labor is much less than infinitely many, like in a continuum setup used by Costinot/Vogel or Blanchard/Willman. Autor has presented a three factor model in at least one of his papers. This raises the question what the paper adds beyond what has already been presented in those papers, especially since the simplification to three types of labor may cloud the view of the role played by the convexity of the wage structure.