A SORTED TALE OF GLOBALIZATION: WHITE COLLAR JOBS AND THE RISE OF SERVICE OFFSHORING

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ABSTRACT

We study how the rise of unaffiliated trade in services with China and India has impacted U.S. labour markets. The topic has two understudied aspects: it deals with service trade (most studies deal with manufacturing trade) and it examines the historical first of U.S. workers competing with educated but low-wage foreign workers. Our empirical agenda is made complicated by the endogeneity of service imports and the endogenous sorting of workers across occupations. To develop an estimation framework that deals with these, we imbed a partial equilibrium model of 'trade in tasks' within a general equilibrium model of occupational choice. The model highlights the need to estimate labour market outcomes using changes in the outcomes of individual workers and, in particular, to distinguish workers who switch 'up' from those who switch 'down'. (Switching 'down' means switching to an occupation that pays less on average than the current occupation). We apply these insights to matched CPS data for 1996-2007. The cumulative 10-year impact of rising service imports from China and India has been as follows. (1) Downward occupational switching increased by 7 percentage points, from 21% to 28%, and upward occupational switching increased by 6 percentage points, from 17% to 23%. (2) Transitions to unemployment were imprecisely measured to have increased by half a percentage point, potentially raising the white-collar unemployment rate from 3.0% to 3.5%. (3) The earnings average across all white collar workers fell by a small 1%. However, for

the sub-population of workers who switched down or became unemployed, earnings fell by 15% and 47%, respectively. (4) Service exports had partially offsetting effects on switching and unemployment. (C) 2018 Published by Elsevier B.V.