Speaker: Dr. Reshad Ahsan (University of Melbourne)

Title of presentation: Trade Liberalization and Labor’s Slice of the Pie: Evidence from Indian Firms.

Abstract: In this paper we examine the impact of a major trade reform initiated in 1991 on labor’s share of firm revenue among a sample of Indian firms. Theoretically, trade reform will affect labor’s share in revenue by reducing the price-cost markups charged by firms as well as the bargaining power of workers. We develop a simple model that suggests that these changes can have ambiguous effects on labor’s share in total revenue. The model predicts that the net effect of trade reform will depend on the labor intensity of a given firm. Using firm-level data from India, our empirical results suggest that trade liberalization led to an increase in labor’s share of total revenue for small, labor-intensive firms but a reduction in this share in the case of larger, less labor-intensive firms. These results are robust to controlling for alternative sources of heterogeneity (e.g. heterogeneous technological upgrading) and to the use of long-lagged tariffs as instruments. We also find that trade liberalization, on average, led to a decline in the bargaining power of workers in firms across all size categories. Our results thus suggest that labor shares are a potentially important channel through which trade affects inequality.

Venue: School of Economics Boardroom

Time: 3:00pm to 4:30pm

Date: Friday October 18, 2013