Sluggishness of Unskilled Labor and the Doha Round

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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
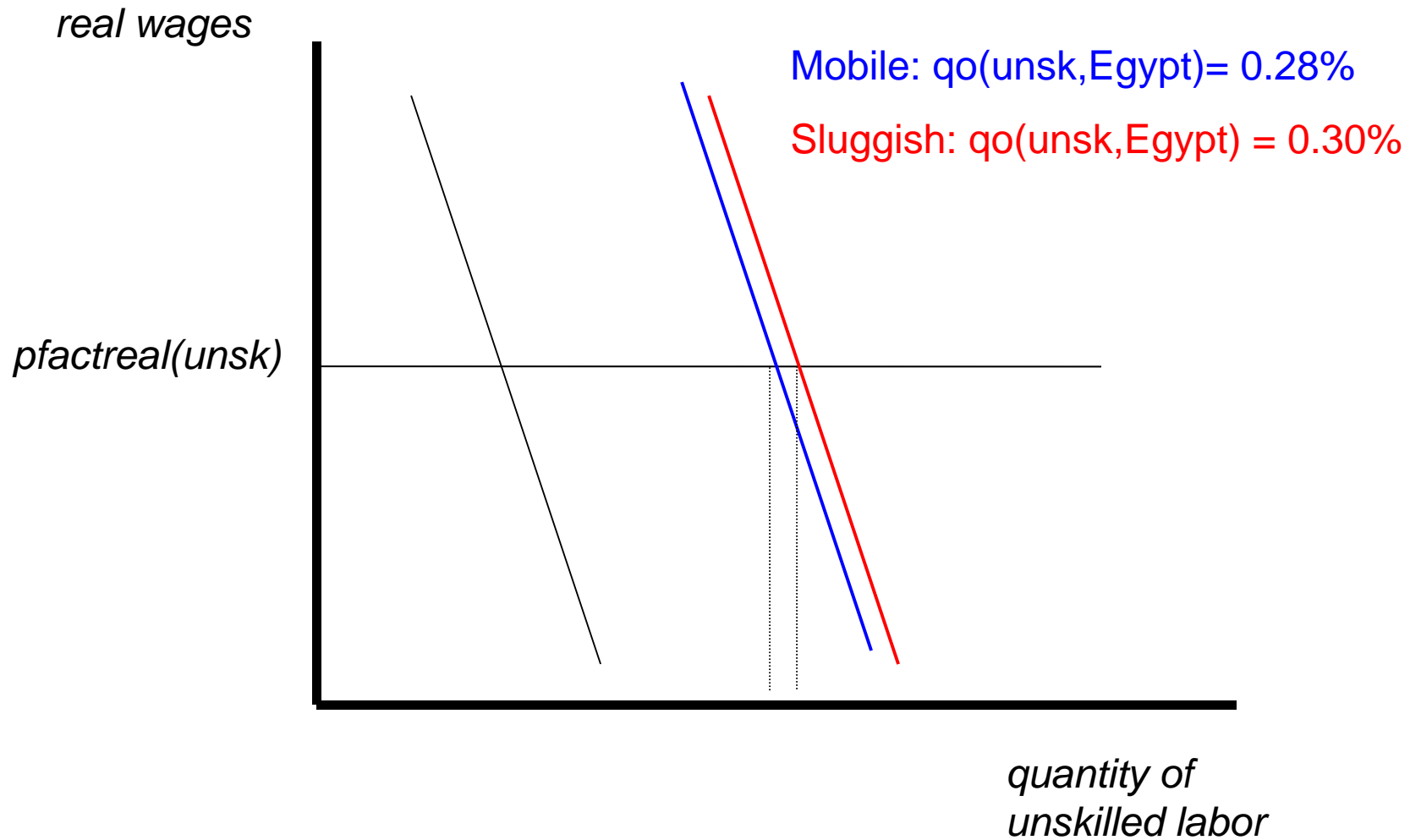
Unskilled Labor Sluggishness

- 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
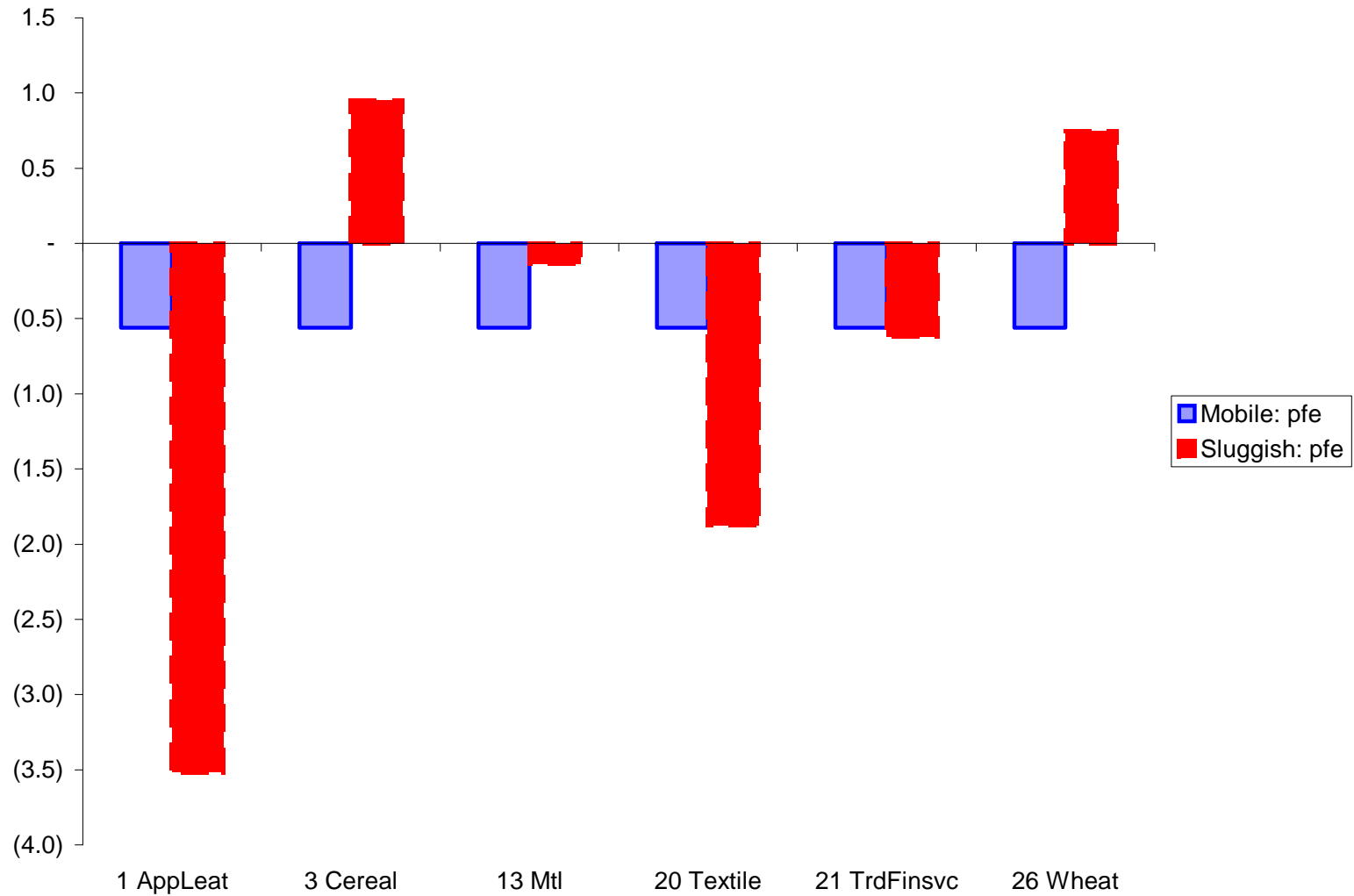
Unskilled Labor Sluggishness

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
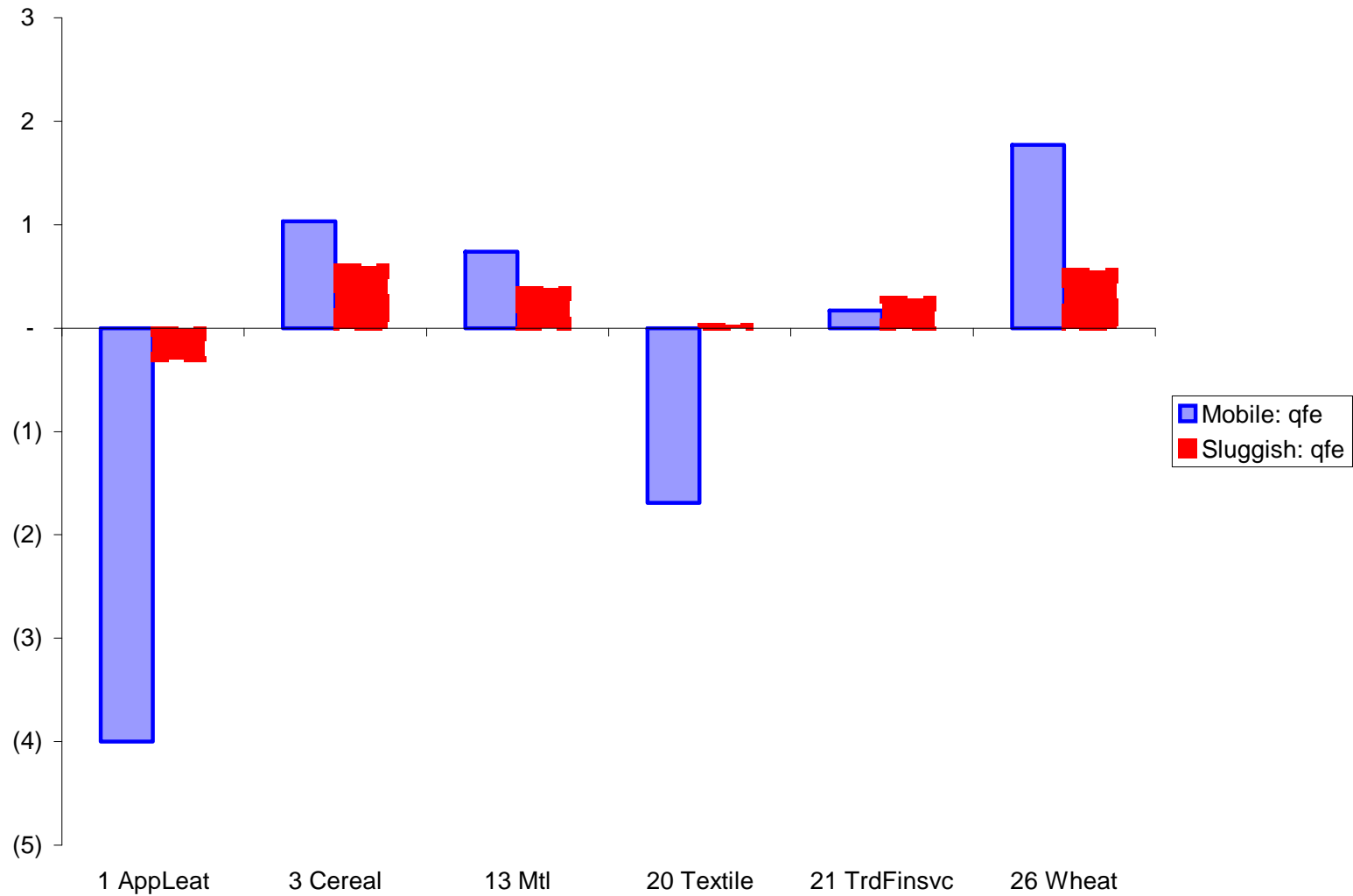- Note: ETRAE is constant for all countries and all sectors

Unemployment decreases in both scenarios

real wages

Mobile: qo(unsk,Egypt)= 0.28%

Sluggish: qo(unsk,Egypt) = 0.30%

pfactreal(unsk)

quantity of
unskilled labor

pfe(unskilled,j,Egypt)

Legend: Mobile: pfe, Sluggish: pfe

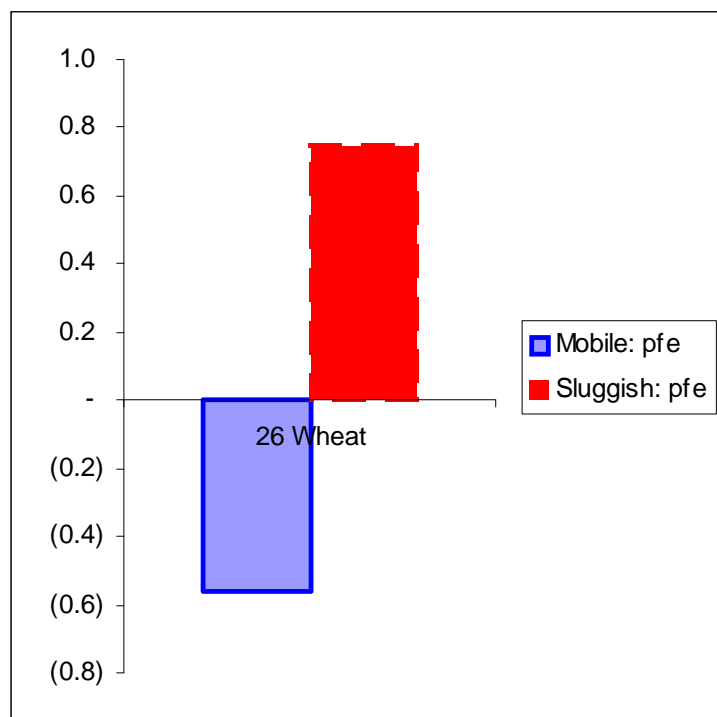X-axis: 1 AppLeat, 3 Cereal, 13 Mtl, 20 Textile, 21 TrdFinsvc, 26 Wheat

qfe(unskilled,j,Egypt)

Unskilled labor in the wheat sector

pfe

qfe

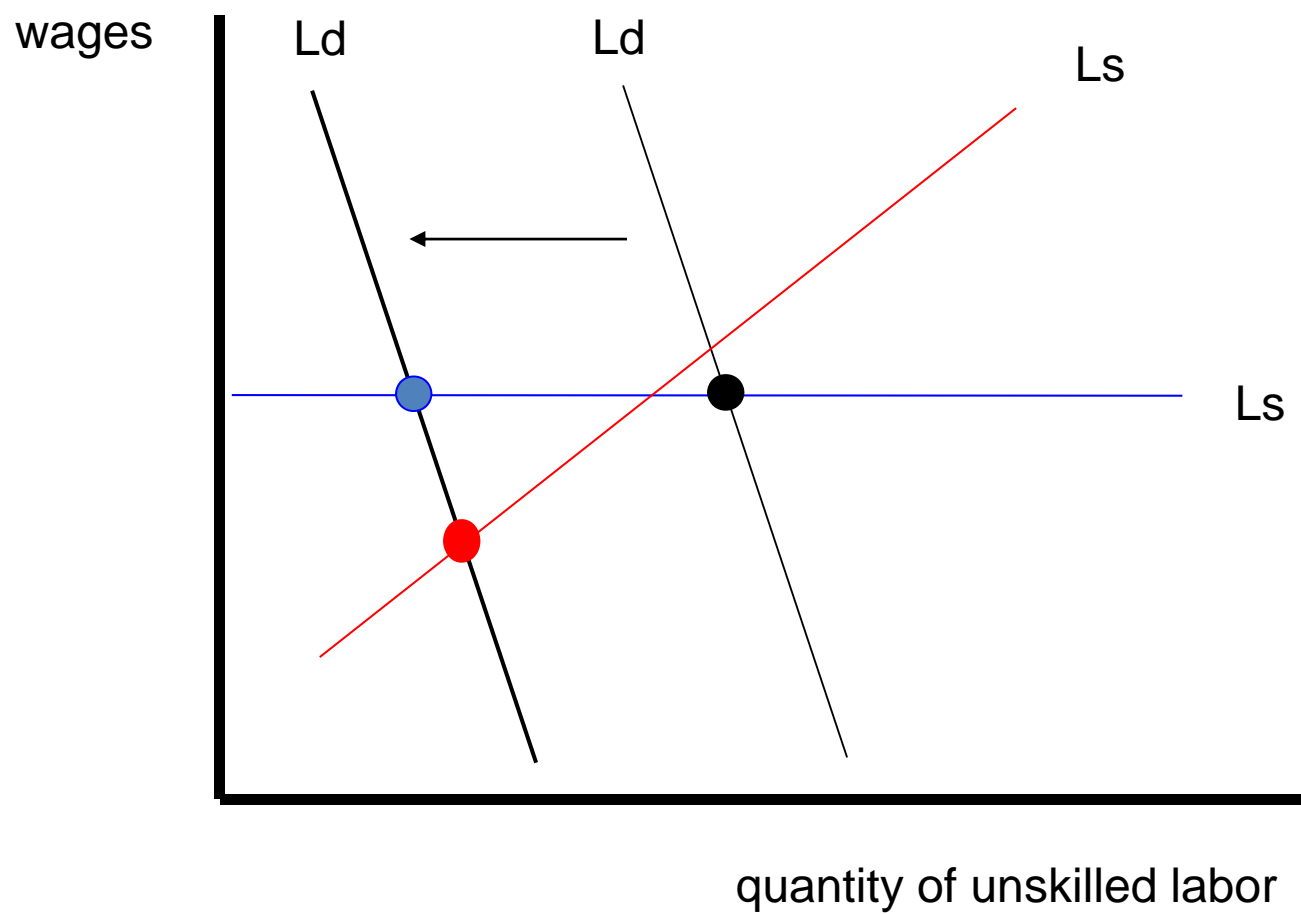# Example: market clearing in wheat

wages

Ld   Ld   Ls

Ls

quantity of unskilled labor
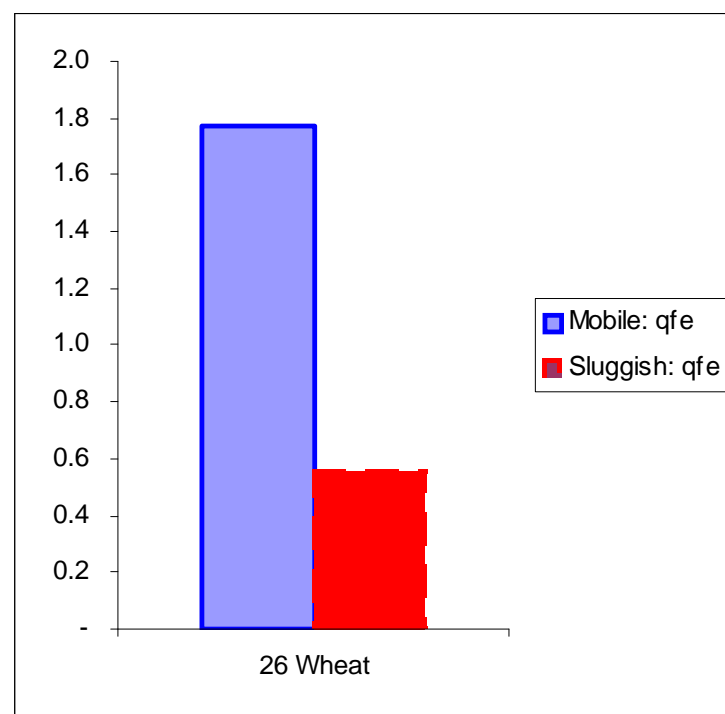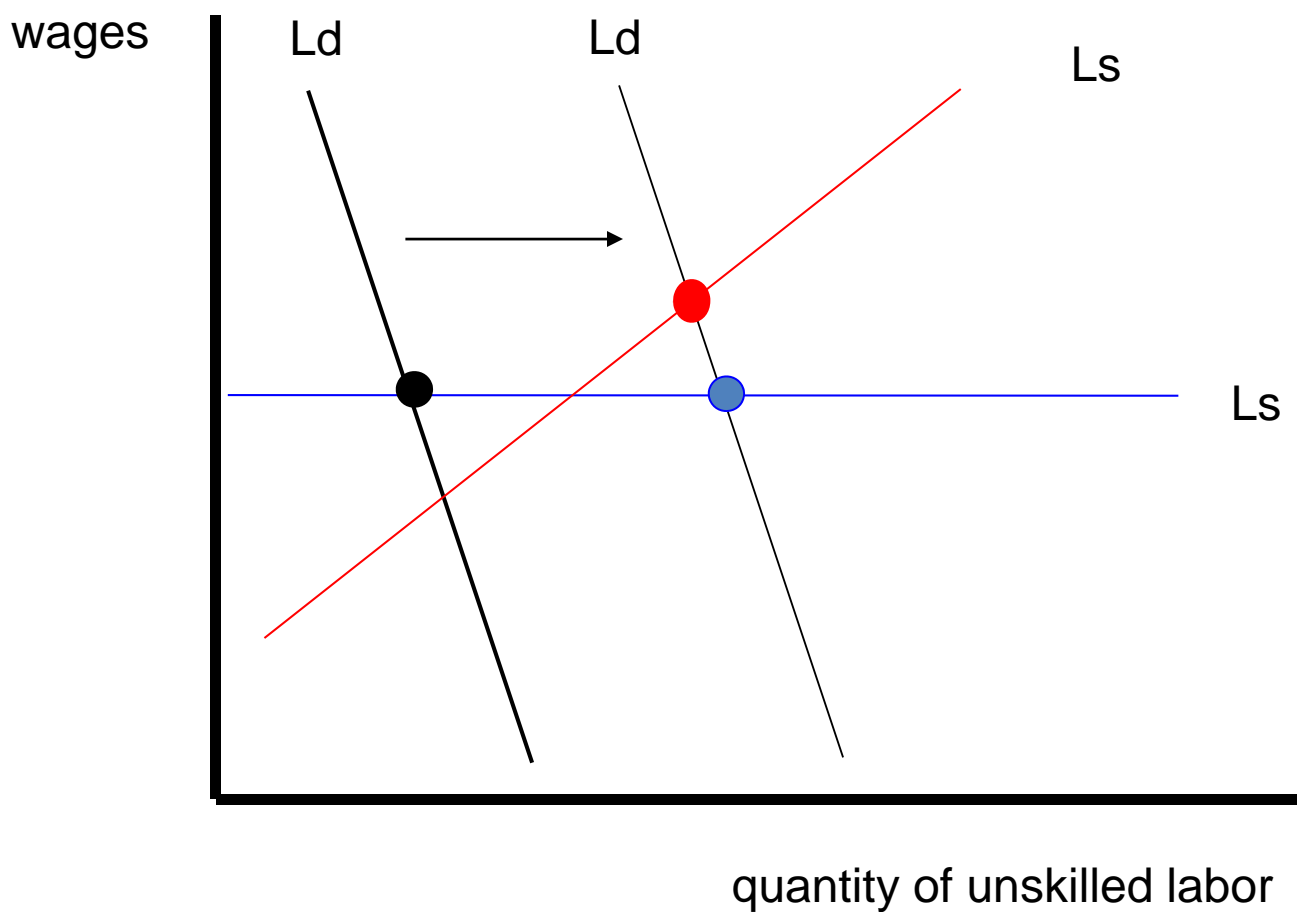
Example: market clearing in apparel

Thank you!