

ABSTRACT:

Import-induced labor reallocation, firm wage premiums, and wage inequality

Erwin Winkler

FAU Erlangen-Nürnberg

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What explains relative wage losses of import-exposed workers? I study the link between manufacturing import exposure, relative losses in firm wage premiums or firms rents, and wage inequality, using German micro data. Import exposure induces labor reallocation to the service sector where firm wage premiums on average are lower. More skilled workers, compared to less skilled workers, are better able to transition to the highest-paying firms within narrowly defined service industries and are better able to transition to service industries where firm wage premiums are high on average. As a result, the degree of worker sorting by skill across high-paying and low-paying firms increases. Relative losses in firm wage premiums explain 70% (50%) of the resulting rise in wage inequality within (between) skill groups.