



Peter Levell, IFS

17<sup>th</sup> November

What's the impact  
of trade on  
inequality?

@TheIFS

# Brexit and labour market inequalities

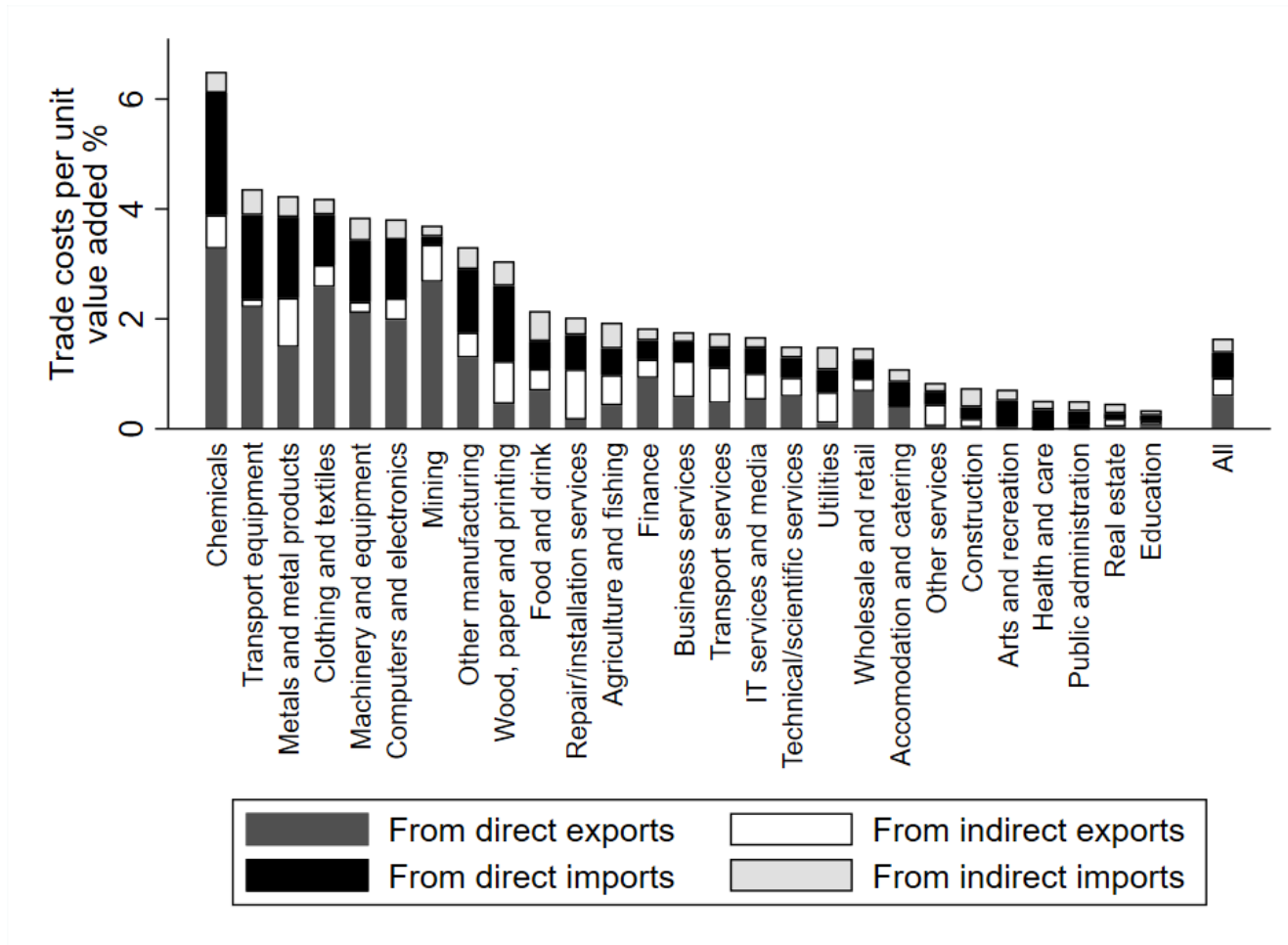


Economic  
and Social  
Research Council

- Brexit has already led to **significant shifts** in trade patterns (UK Trade Policy Observatory, 2021)
  - Exports to EU down 14% (Jan-July)
  - Imports from EU down 24%
- Long-run impact on GDP forecast around 4% (Office for Budget Responsibility, 2021)
- Lessons from history: shifting patterns of trade can have **concentrated** impacts
  - Impacts of Chinese import competition highly localized
  - Large effects in particular industries
  - The low-paid and those with specific skills saw particularly adverse impacts

- We (Griffith, Levell and Norris Keiller, 2021 and Davenport and Levell, 2021) look beyond these aggregate impacts to try to understand how Brexit affects different workers and areas
- Impacts will differ across industries
- Industries can be affected in several ways:
  1. Fewer export opportunities
  2. Higher costs of imported inputs
  3. Reduced import competition
- Effects can be direct or indirect (through supply chain)
- Trade costs difficult to predict (take figures from UK in a Changing Europe, 2021 for new TCA)

# New trade costs with the EU by industry



Note: Authors' calculation using the ONS Input Output Tables and World Input Output Database.

# Impacts on workers

- Wage impacts for workers depend on
  - How consumers and firms respond to price changes?
  - What are the costs of importing/exporting?
  - Are there alternative jobs workers could move into?
- We model worker exposure based on assumptions of new trade barriers and consumer and firm responses
  - Lots of uncertainty
- Do not model impacts on investment decisions, competition or innovation (difficult to know the distributional impact of these)

# Impacts on workers

- New trade barriers affect exports to EU and costs of imports
- → Affects prices and profits of different industries
- → Some industries shrink others expand
- → Wages of workers in different occupations and local labour markets rise/fall
  
- Workers worse affected if...
  - local employers of workers in your occupation highly exposed
  - few outside options in less exposed industries

# Machine operatives most exposed

Occupation	% total	Prop. male	Prop. manuf.	Weekly earnings	Modelled real wage impact
<b>Machine operatives</b>	5.9	0.87	0.31	£487	<b>-2.25</b>
<b>Technical</b>	14.4	0.55	0.10	£677	<b>-1.72</b>
<b>Skilled trades</b>	7.6	0.89	0.25	£528	<b>-1.67</b>

Note: Authors' calculations from 2019 Quarterly Labour Force Survey, Annual Survey of Hours and Earnings and Business Structure Database.

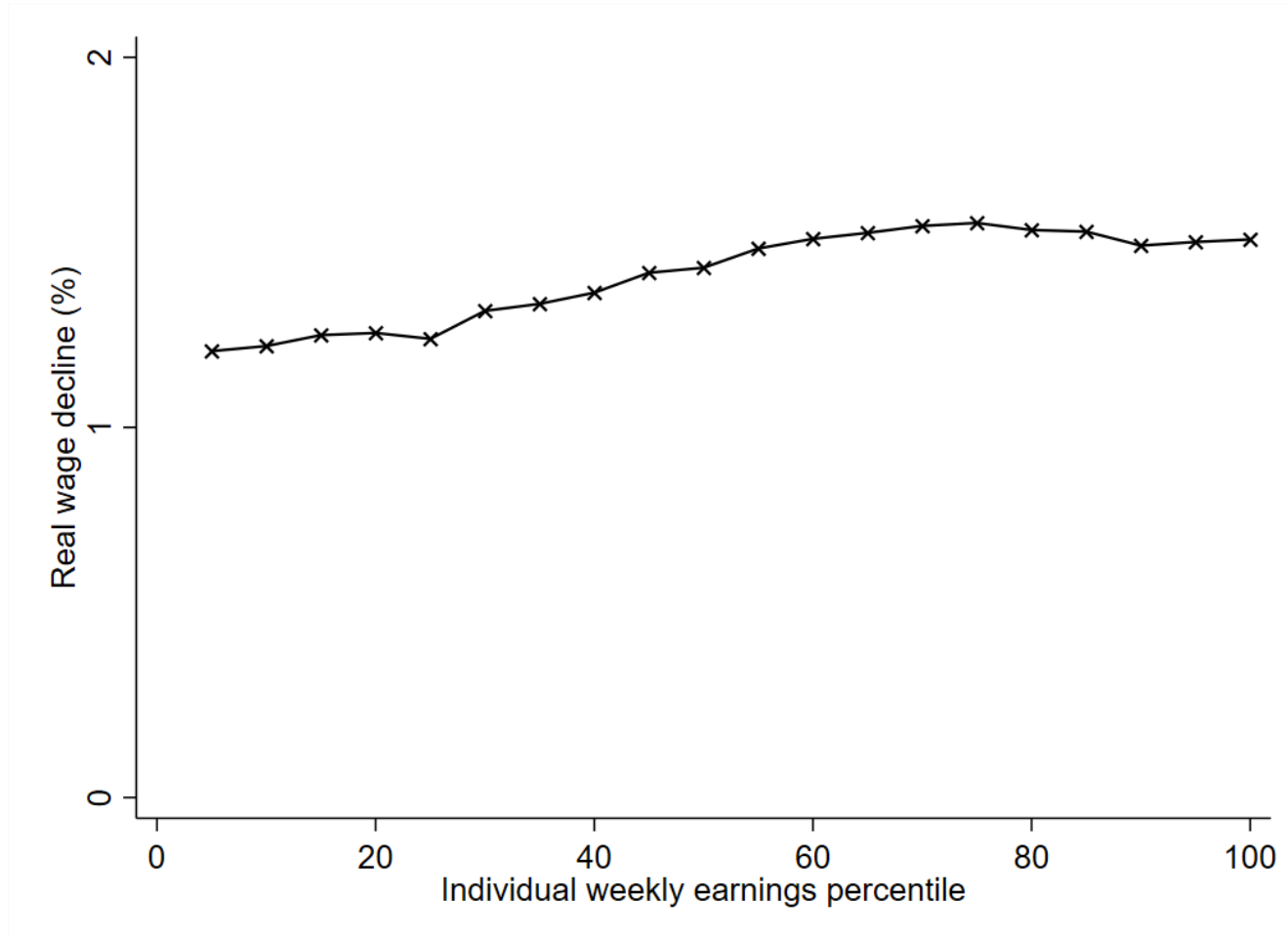
# Machine operatives most exposed

Occupation	% total	Prop. male	Prop. manuf.	Weekly earnings	Modelled real wage impact
Machine ops	5.9	0.87	0.31	£487	-2.25
Technical	14.4	0.55	0.10	£677	-1.72
Skilled trades	7.6	0.89	0.25	£528	-1.67
Managers	10.3	0.64	0.11	£923	-1.59
Administrative	11.0	0.24	0.08	£402	-1.35
Professional	22.2	0.48	0.07	£778	-1.35
Sales	8.2	0.38	0.04	£306	-1.26
Elementary	10.9	0.51	0.08	£269	-1.16
Other service	9.5	0.19	0.01	£294	-0.88

Note: Authors' calculations from 2019 Quarterly Labour Force Survey, Annual Survey of Hours and Earnings and Business Structure Database.

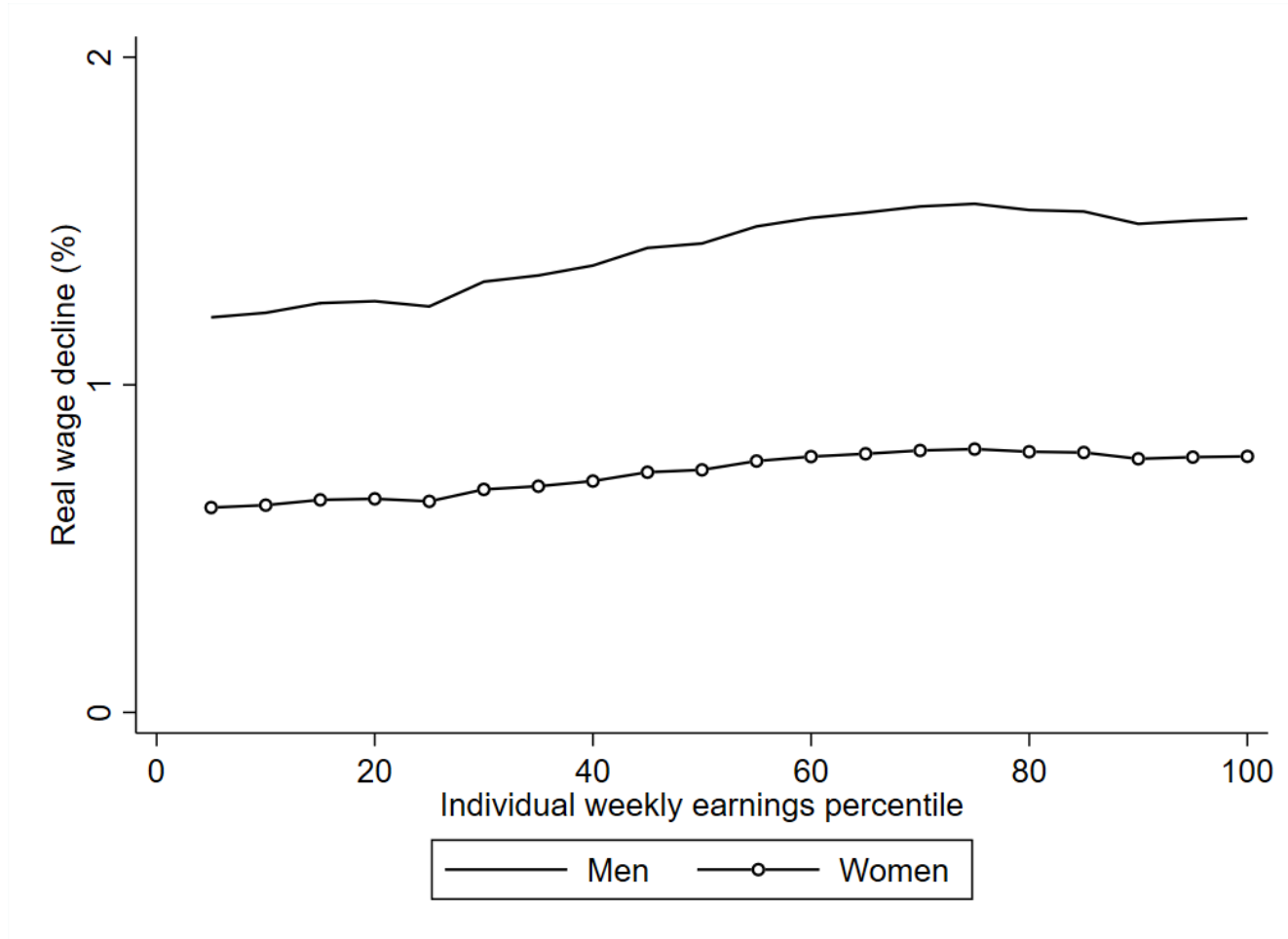


# Exposure is increasing with earnings



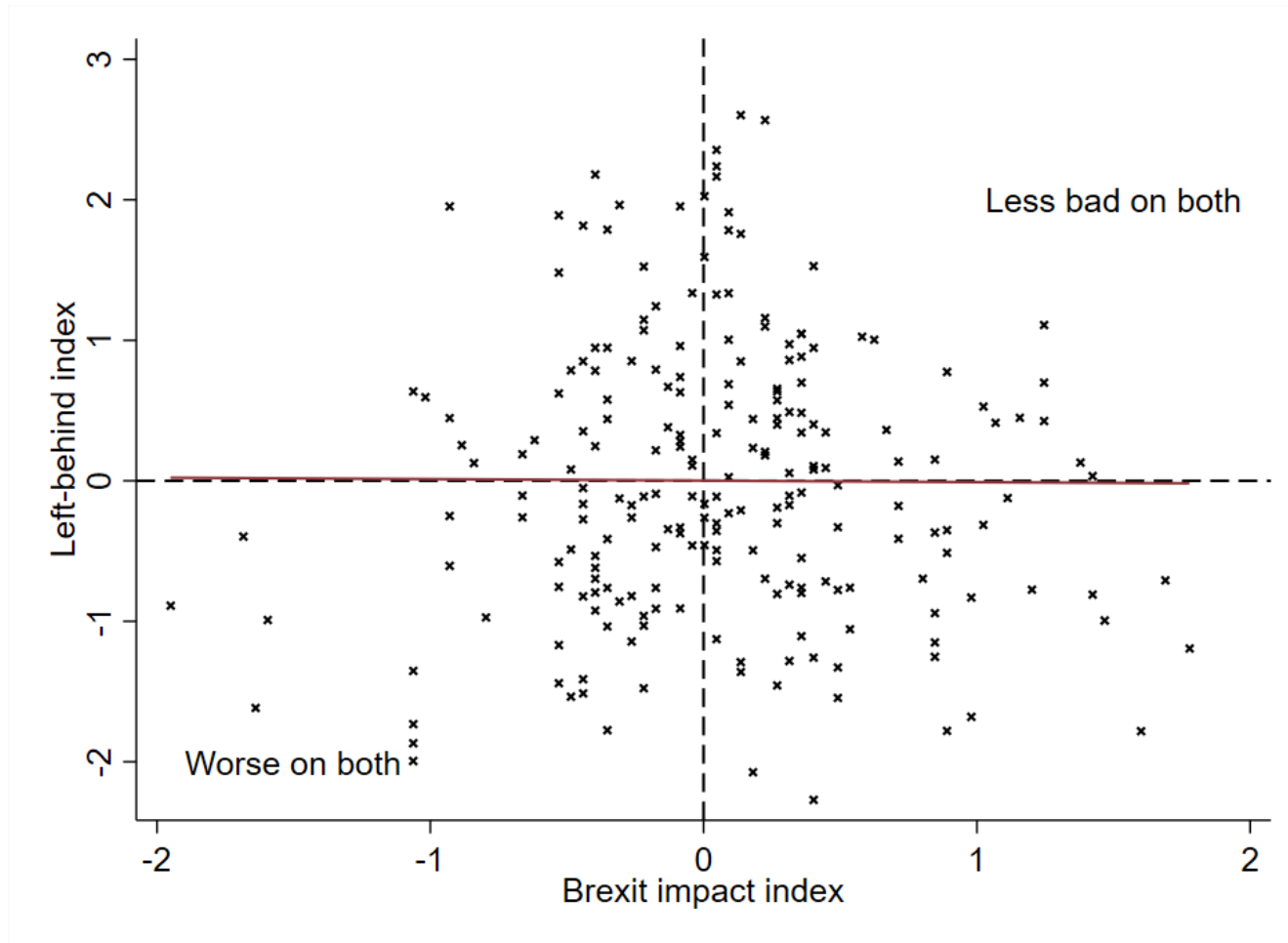
*Note: Authors' calculations from Annual Survey of Hours and Earnings and Business Structure Database.*

# Exposure is higher for men than for women



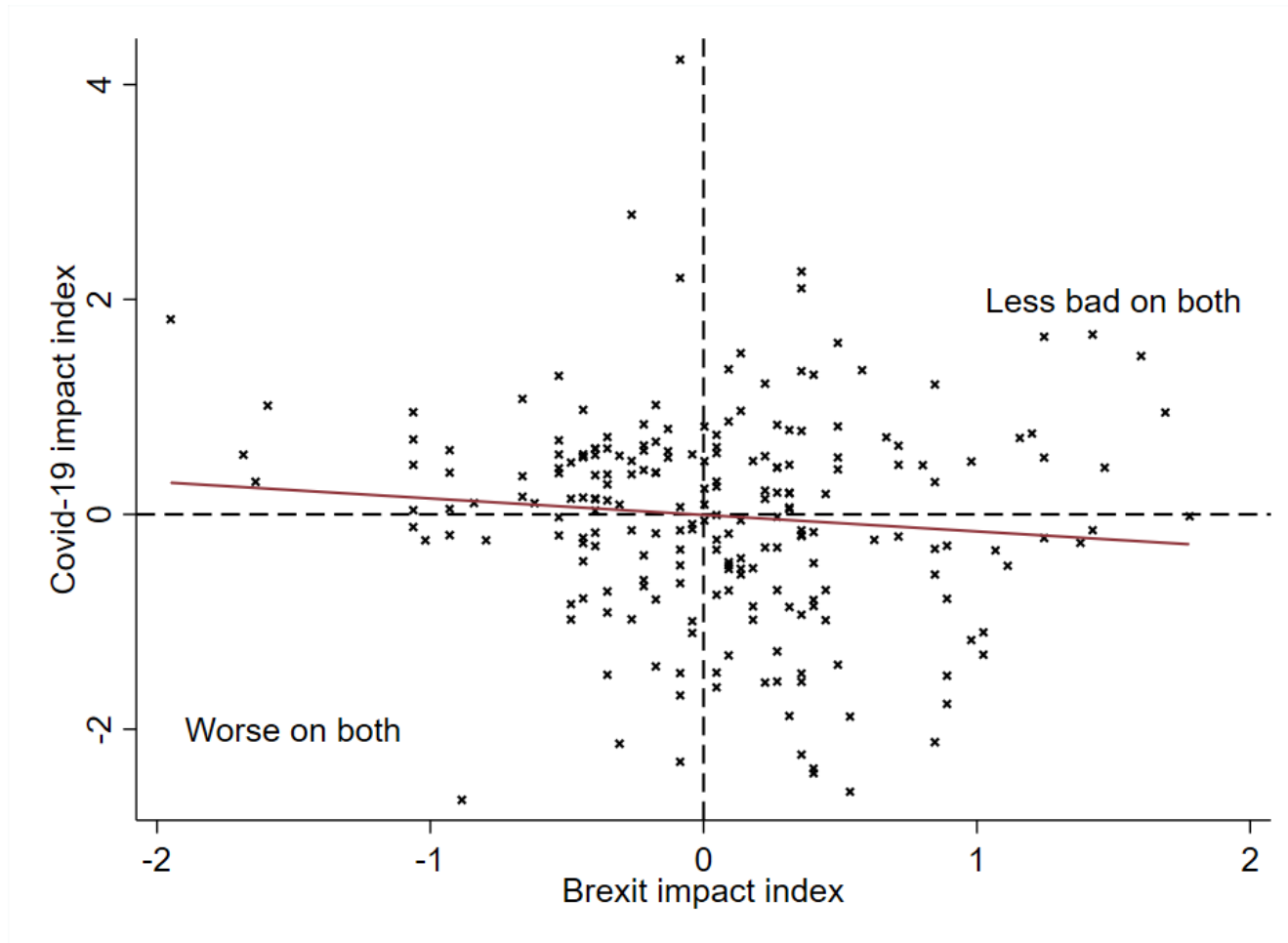
*Note: Authors' calculations from Annual Survey of Hours and Earnings and Business Structure Database.*

# No correlation between Brexit exposure and being 'left-behind'



*Note: Left-behind index includes employment, formal education, pay, and incapacity benefits*

# ...or COVID impacts



*Note: Covid-19 impact index includes changes in unemployment, job vacancies, rates of furlough and employment in shutdown sectors*

# Summary

- Brexit affects different industries to the China shock
- But some workers appear similar (male, less likely have a degree, working in locally concentrated manufacturing industries)
- To avoid the repeat of what we saw in the past, government should monitor impacts closely

The Institute for Fiscal Studies  
7 Ridgmount Street  
London  
WC1E 7AE

[www.ifs.org.uk](http://www.ifs.org.uk)

