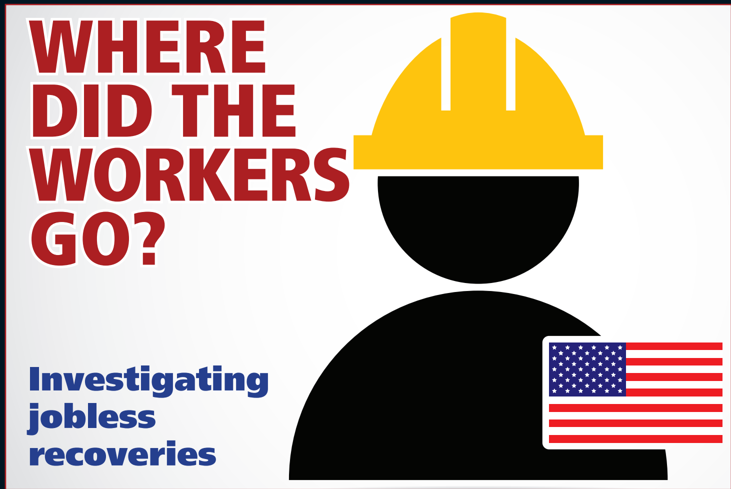
Essential reading selected by IEA Research Fellow Diego Zuluaga



Whilst the U.S. unemployment rate has returned to pre-recession lows, there is concern among policymakers about other developments in the American labour market, notably the secular decline in the labour force participation rate since the turn of the millennium.

A growing number of economists are trying to explain the drop in the share of working-age individuals in employment or seeking employment, and whether factors such as the ageing of the population, increasing reliance on disability benefits, occupational licensure and other workplace restrictions might be playing a role.

New technologies are another prominent candidate explanation for this structural shift. Some recent studies appear to have shown a link between so-called 'jobless' recoveries – where employment creation after a recession is low compared with GDP growth and previous experience – and the replacement of middle-skill routine jobs by labour-saving technologies.

But this evidence is limited to the United States, and recent labour-market outcomes have varied considerably across countries. For instance, in the UK unemployment has likewise declined to pre-crisis levels but the participation rate is at all-time highs, contradicting US experience.

This paper tests whether the American evidence is replicated elsewhere in the world. The authors look at 71 recessions in 17 developed countries between 1970 and 2011.

They consider three questions: whether recent recoveries have produced slower employment growth than earlier ones; whether employment growth was especially slow in industries featuring a preponderance of routine jobs, which are more susceptible to automation; and whether middle-skill workers in those industries and across the economy were differentially affected.

The paper finds the US experience not to be applicable to the countries in their sample.

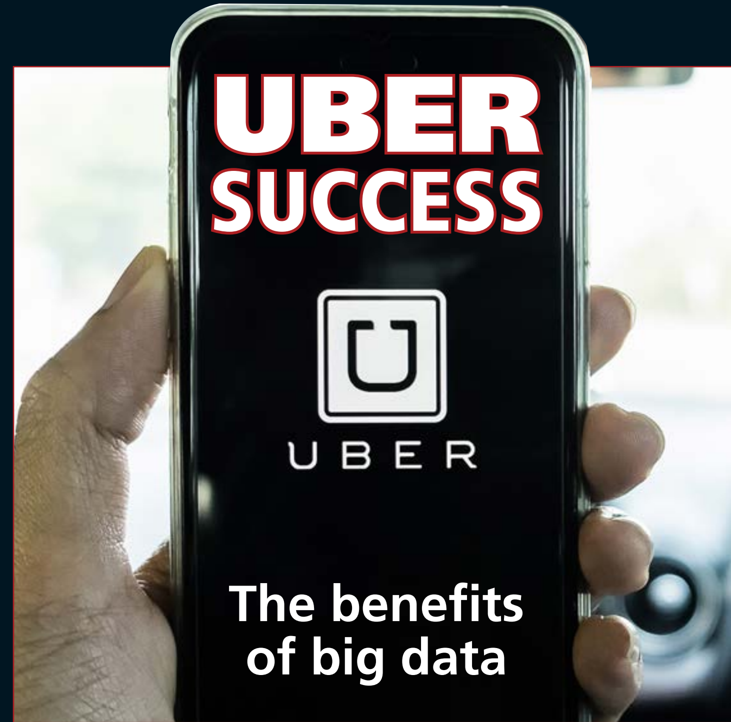
Firstly, there is no sign of a slowdown in employment creation in the wake of recent recessions relative to earlier ones.

Secondly, the authors find that routine-intensive industries did not experience slower employment growth than non-routine-intensive ones over the sample period. Furthermore, job growth during recoveries did not slow down after 1985.

Finally, whilst there is some evidence of recessions becoming worse for middle-skill workers after 1985, the authors find that job recoveries were the same for those workers as for other workers and did not worsen over the period of study.

The paper suggests that US-specific factors may be driving the joblessness of recent economic recoveries•

GRAETZ, G., & G. MICHAELS
(2017)
Is modern technology responsible for jobless recoveries?
American Economic Review 107.5 (May): 168-73.
http://eprints.lse.ac.uk/69043/1/dp1461.pdf



Microeconomic theory suggests that labour market regulation which raises the cost of employment – such as statutory pay floors, limits on working hours and rules on the scope and duration of work contracts – will lead employers to substitute capital for labour.

The concept of consumer surplus is widespread in economics, and much public policy – from airfare liberalisation to the break-up of monopolies – is designed with consumer-surplus considerations in mind.

It is often regarded as a sign of market power if companies are able to capture more of the consumer surplus.

Yet to quantify this measure for any real market is a challenge, because in most instances the only price we know is the price that consumers actually pay. We need to know the price consumers are willing to pay to estimate consumer surplus and this is different for every consumer and not revealed in market transactions.

This paper examines one of the rare markets in which consumer surplus can be estimated: the market for transport services intermediated by Uber.

Two features of this ride-sharing application make it a fruitful subject of research: firstly, the app can and does record when customers log on, whether or not they end up requesting a ride; secondly, the service uses variable – so-called 'surge' – pricing to balance supply and demand – higher prices bring more cars on the road but they also discourage the potential customers who value a ride the least from requesting it.

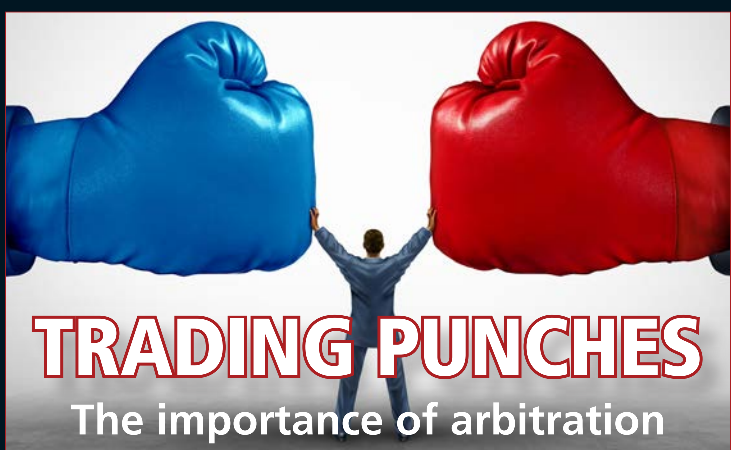
The two features together mean that Uber data can be used to calculate willingness to pay, and therefore demand functions and consumer surplus.

The authors study the impact of Uber on consumer welfare in four US cities, and they find consumer surplus of $2.88bn in 2015, or $6.8bn when the findings are extrapolated to all trips taken by Uber customers in America that year.

This figure is six times Uber's revenues from commissions and twice the revenue obtained by Uber drivers.

The paper thus not only documents a remarkable instance of economics at work, but it also provides strong evidence of welfare gains to consumers from new technologies•

COHEN, P, R. HAHN, J. HALL, S. LEVITT & R. METCALFE
(2016)
Using big data to estimate consumer surplus: the case of Uber
NBER Working Paper 22627 (September)
National Bureau of Economic Research
http://papers.nber.org/tmp/5610-w22627.pdf



Before Donald Trump was elected to the presidency, the US and the EU were negotiating a preferential trade agreement known as the Transatlantic Trade and Investment Partnership, or TTIP.

Because tariff barriers between the two blocs are already low, much of the discussion focused on how to increase competition and facilitate investment by curbing regulatory barriers and providing greater legal certainty to firms from the other side of the Atlantic.

The latter involved introducing an investor-state dispute settlement (ISDS) clause into the agreement. This was very controversial and led to widespread protests in continental Europe.

ISDS is an example of international commercial arbitration, a process of dispute settlement by the parties to a contract outside the domestic jurisdiction of either party. Disputes are instead settled by private tribunals in international centres viewed as neutral by both parties.

The justification for international arbitration is that it facilitates trade and investment by assuring foreign investors of a fair litigation process should disputes arise. Furthermore, international arbitration often relies on legal systems, such as English contract law, that firms know and which provide more flexibility than many domestic legal systems, especially those of developing countries.

This paper tests the argument that international arbitration makes investment easier by comparing foreign direct investment (FDI) flows into countries that have and have not signed the main international convention on enforcement of foreign arbitral awards.

The paper finds that international commercial arbitration does have a significant effect on foreign investment flows. On average, bilateral investment flows are 2.6 times higher if both countries are signatories to the convention than if none or only one of them is. If only one country is a signatory, FDI flows are still 51 per cent higher than if neither are signatories.

With regard to the impact of such agreements on the number of projects undertaken, the authors find the effect to be especially strong for projects above $60 million.

This paper provides support for the settlement of international trade and investment disputes by private tribunals, specifically, and for the use of international institutions as a complement to domestic statutory bodies more generally. Both are found to be beneficial to foreign investment and thus to growth•

MYBURGH, A & J. PANIAGUA
(2016)
Does international commercial arbitration promote foreign direct investment?
Journal of Law and Economics