During the past decades, the rapid improvement of information and communication technologies as well as the wide-spread dismantling of administrative trade barriers have fundamentally changed the structure of international production and trade: while there used to be a time when nations were exchanging final goods—“wine and cloth”, to use Ricardo’s famous example—today’s reality is characterized by production chains being sliced into several steps, and firms exploiting factor price differences to optimally allocate those steps across the globe. Given the potential consequences for aggregate economic activity and welfare in both sending and recipient countries, it is not surprising that the growing importance of offshoring has instigated an intensive debate among academics, policymakers, and the general public.

Robert Feenstra was among the first to acknowledge the importance of this development, and to explore its consequences for international trade flows, national output levels and the distribution of income. He has now published a volume that summarizes our current knowledge on the determinants and consequences of offshoring, and that offers a concise account of both the theoretical and the empirical research on the subject. The book is based on Feenstra’s Ohlin lectures at the Stockholm School of Economics and its structure and contents positively reflect the text’s original didactic purpose: it follows a clear structure, offers a compelling motivation for each chapter, and boils down theoretical approaches and empirical results to their essential contribution.

The first part of the book deals with the microeconomic aspects of offshoring. It starts by clarifying the terminology and by defining “offshoring” as a firm’s decision to shift a part of the production chain abroad—regardless of whether this step is performed in-house (by the foreign subsidiary of a multinational firm) or by an independent contractor. It then reports both the widening gap between non-production workers’ and production workers’ wages and the growing relative employment of

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non-production workers, which he interprets as evidence that the demand for skilled labor increased substantially during the 1980s. How did the rising volume of international trade contribute to this shift of the respective labor demand curves? As Feenstra argues, traditional trade models do a poor job in explaining these observations: first, we would have to see large shifts in a country’s production structure if the changing importance of skilled labor were driven by variations in conventional final-goods trade. Second, traditional trade models imply that the lower demand for non-production workers in USA should be mirrored by an increasing demand for this type of labor in other countries. However, neither of these developments could be witnessed during the 1980s. Based on this observation, Feenstra summarizes his work with Gordon Hanson (1997) which highlights the growing importance of offshoring as a competing—and eventually more successful—explanation: if different steps in the production of a given good (“activities”) are characterized by different skilled-labor and low-skilled labor requirements, and if the wage for low-skilled labor is smaller in a foreign country, firms will decide to move the least skill-intensive activities to that country. This does not necessarily result in a changing trade pattern with respect to final goods, since the last production step is often performed in the domestic economy. Moreover, this relocation of activities raises the average skill-intensity of those steps that are still performed at home, which, in turn, increases the relative wage of skilled labor. Most importantly, the production steps that are now performed abroad are among the most skill-intensive in the recipient country: hence, the demand for skilled labor increases there as well, and the foreign country also witnesses a widening wage gap.

Feenstra goes on by shifting his focus towards the 1990s: in that decade, the wage gap between high-skilled and low-skilled labor continued to grow in the United States, but this evolution was associated with a reduced relative employment of non-production workers. To provide an explanation, Feenstra turns to the seminal paper by Grossman and Rossi-Hansberg (2008). In their framework, the production process consists of a sequence of “tasks”, which—unlike the “activities” in the Feenstra–Hanson papers—are performed by either high-skilled or low-skilled labor. The attractiveness of offshoring a particular task depends on relative factor prices, but also on the costs of communication, coordination, monitoring etc. Reducing these “offshoring costs” induces firms to shift a greater share of tasks abroad. This, however, acts like an exogenous technical progress and raises the domestic wage of the factor whose tasks are relocated. While Feenstra is skeptical about Grossman and Rossi-Hansberg’s celebrated result that the offshoring of “low-skilled tasks” may raise the wage of low-skilled workers in the sending country—this would be in stark contrast with the observed evolution of relative wages—he emphasizes that using the Grossman/Rossi-Hansberg framework to model the increased offshoring of services may reconcile the reduced skilled-labor employment with the widening wage gap of the 1990s. The importance and political relevance of this result can hardly be overrated: while much of the discussion on the first wave of offshoring concentrated on a conflict between different types of labor, identifying non-skilled workers as the potential victims of globalization, the Grossman/Rossi-Hansberg approach shifts the focus towards the “offshorability” of individual tasks. Given this focus, the impact of globalization on the labor market no longer primarily depends on people’s qualification. You may be as skilled as you want: if it turns out that the task you perform is easy to delegate, nothing prevents your job...