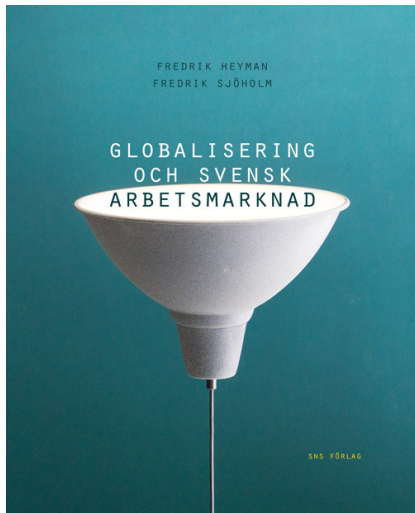


# Summary

## Globalization and the Swedish labor market\*

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*\*A summary of a report in Swedish with the title "Globalisering och svensk arbetsmarknad" (SNS Förlag)*

Global economic integration has increased substantially over the last decades and is presumably higher than ever before. One consequence is that a large share of workers is employed in foreign owned firms, in firms that have own foreign affiliates, and in firms with export and offshoring. Globalization leads to an increased level of specialization in countries' production. Furthermore, globalization also results in increased competition, which, in turn, forces firms to engage in streamlining and improving their activities. Finally, globalization enables firms to benefit from economies of scale in production, which is particularly important for firms in relatively small countries. These effects have resulted in increased economic growth, increased incomes and an improved standard of living for large segments of the population. However, what benefits individual countries, and the majority of people, is not necessarily beneficial for everyone. There are groups whose situation is rendered more difficult by the structural changes

following increased levels of globalization.

Furthermore, it appears that the nature of globalization has gradually changed. More specifically, structural change does not take place between different industries to the same extent as before, but instead within firms and between firms in the same industries. This change has an impact on the relative demand for different types of labor: some occupations face decreasing demand when their tasks are relocated to foreign countries, whereas others experience an increase in demand as a result of globalization.

This report departs from the recent developments explained above and analyze labor market effects of increased globalization with a focus on the relative demand for different occupations. Our analysis focuses on changes within firms and industries and how these, in turn, alter the demand for different types of labor. Our empirical analysis covers Swedish conditions by using detailed matched data on workers and firms during the period 1997–2013. We start by describing the mechanisms behind globalization and changes in labor demand, with a distinction of effects taking place between industries, between firms, and within firms. We show how the distribution of occupations in firms has changed over time, and then take a closer look at the interaction between globalization and new technology as well as how globalization affects matching between firms and workers. The report ends with a policy discussion.

In summary, our empirical analysis shows that:

- The share of employees in foreign-owned firms, as well as the number of foreign-owned firms, has increased dramatically in Sweden during the last two decades. At the same time, we have seen an increase in jobs offshored abroad.
- Firms with different degrees of international involvement differ in terms of their



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relative demand for different occupations. Multinational enterprises (MNE) have the most skilled work force, followed by exporting firms. Local firms have the least skilled work force.

- Recent labor market effects of globalization are mainly driven by changes within industries, rather than between industries.
- Job polarization seems to have increased as a result of increased globalization, in part driven by a decrease in demand for routine jobs located in the middle of the wage distribution.
- Globalization is systematically related to the matching of workers and firms. This matching has increased in more internationally exposed industries.
- Increased globalization has a positive effect on wages, but it also implies higher wage inequality. Around one third of the Swedish wage inequality can be linked to globalized firms.
- New technology and digitalization are closely related to globalization, implying that recent trends in ICT amplifies how globalization affects labor markets. One such effect is the de-routinization of jobs in Sweden.

Based on our empirical findings we also present some specific policy recommendations.

- Globalization benefits Sweden and Swedish living standards. In times of increased protectionism, it is important to work for maintaining an internationally open trade regime. This work can preferably be done through the EU.
- The effect of globalization on the labor market is increasingly complex. However, the main tendency remains to be an increased demand for skilled workers and a decline in demand for unskilled ones. An improved quality at all levels of education is a highly prioritized policy area if wages for Swedish workers are to remain high.
- Increased labor market flexibility is important to enable workers to move from declining to expanding industries and occupations. Well-designed social security systems, education and training for negatively affected workers, and policies enabling geographic mobility, are all important to increase labor market flexibility.

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