Faculti Summary
https://faculti.net/offshoring-and-non-monotonic-employment-effects-across-industries-in-general-equilibrium/

The study addresses two key contexts: a real-world context marked by a significant increase in offshoring—defined as the international fragmentation of production—and an academic context where existing research on the labor market effects of offshoring shows no clear consensus. Offshoring has been linked to cost savings for firms but raises concerns about potential negative impacts on domestic workers.

Despite a substantial body of theoretical and empirical research, findings have often been ambiguous, with many empirical results appearing small compared to public concerns. The authors argue that traditional models, which rely on one or two sector frameworks, may yield misleading conclusions due to the interconnected nature of industries in general equilibrium.

They introduce a theoretical model—the general oligopolistic equilibrium (GOLE) model—to analyze employment effects across many interconnected industries that vary in their offshoring potential. The study finds that industries with low and high offshoring intensity tend to lose employment, while those with an intermediate range gain. This video creates a hump-shaped employment pattern influenced by direct displacement effects and positive productivity effects associated with offshoring.

The research emphasizes the need for refined empirical models that account for non-monotonic relationships between offshoring and employment. It suggests that adjustment assistance should be broadly available to workers affected by offshoring, rather than narrowly targeted, as many impacted individuals may not directly experience job loss but still suffer from broader economic shifts. Overall, the study calls for a deeper understanding of how offshoring impacts labor markets beyond straightforward predictions.