

Discussion comments on “Exploring international migration and outsourcing through an institutional lens”

David T Coe

Let me start with a few words about Palle. I first met Palle in 1978 when I joined the Economics Department of the Organisation for Economic Co-operation and Development (OECD), fresh from graduate school. I was impressed by the diversity of economists from so many countries in the Economics Department. Many of my new colleagues, most of whom came from government ministries or central banks, had a very different way of looking at economic developments, prospects, and policies, compared with what I had learned in graduate school, which, among other things, was biased toward formal econometrics and econometric models. Among the senior staff, Palle stood out. Not only was he interested in applied policy research, as were most OECD economists, but he could do it exceedingly well, based on up-to-date theoretical models and using modern empirical techniques. For junior economists, Palle was someone you could learn a lot from, and he was generous with his time in providing comments and guidance. It may sound trite, but I always thought of Palle as an economist’s economist. He was also a very good friend. I can think of no one more fitting than Palle to be honoured by such a conference.

Last summer I had the good fortune to spend two months visiting the OECD while on leave from the IMF. To be again in Paris working on labour market issues brought back many good memories of working with Palle on similar issues almost 30 years earlier. It was a nice coincidence that the paper I wrote while visiting the OECD was on the same topic as this conference, and I am honoured that it has been included in this volume.

Turning to the paper on “Exploring international migration and outsourcing through an institutional lens”, by Jill Rubery, Annamaria Simonazzi, and Kevin Ward, I find there is much to like. The focus on institutions is welcome since, in the areas of migration and labour markets, institutions are central to understanding developments and cross-country differences. The paper thus contributes to the broader literature emphasizing the importance of institutions for economic growth and for understanding why some countries are rich and others poor.

The authors are right: the world is not flat. Country-specific institutions and circumstances – including endowments and history – are important in the process of globalisation, and will remain so. And although globalisation will shape institutions, this does not mean a homogenisation of institutions across the globe is either imminent or inevitable. I agree with the authors that there is no clear tendency towards a convergence of employment models – nor should there be, because we know that very different models can deliver good labour market outcomes.

I also liked the three case studies, which are rich in detail and very informative, particularly the case study on the IT sector. Anyone interested in developments in European temporary staffing agencies and the elderly care sector, will find much useful material in these two studies.

While agreeing with much of the paper, I have a number of comments, mainly related to its conclusions and policy implications. The first is that, while it is understandable that the authors focus on Europe, a broader discussion to include key emerging market countries would have been welcome, particularly in the concluding section. For every country that off-shores jobs or tasks, there is, by definition, a recipient country that on-shores those jobs or tasks. On-shoring and migration have made important contributions to economic growth and

poverty reduction in many developing and emerging market countries such as China and India. From a global perspective, focusing only on developments in the off-shoring countries gives an unbalanced view of the costs and benefits of off-shoring.

This takes me to my second comment. In my view, the paper is unduly negative about the economic effects of international migration, outsourcing, and off-shoring, partly because of the Eurocentric focus. This negative patina is particularly evident in the concluding section discussing policy conclusions. The authors conclude, for example, that outsourcing/off-shoring and migration may be used to avoid the need for modernisation and adjustment. This may be true. But I would also expect that outsourcing/off-shoring and migration would be key aspects of modernisation and adjustment for many firms. Similarly, in their closing paragraph, the authors emphasize the potential major long-term costs associated with the use of migrant workers with only scant recognition of potential benefits.

I also found some of the policy conclusions to be overly dirigiste, at least for my tastes. The authors conclude, for example, that it is important to balance the promotion of outsourcing and off-shoring with the “recognition that companies may be outsourcing activities and processes that are better provided in house for quality/strategic reasons” (policy conclusion four). While it is difficult to argue with this, who rather than the companies themselves are better placed to judge if activities are best done in house or outsourced?

A final comment concerns references in the paper to the need to introduce a national minimum wage in Germany. While not disputing that a national minimum wage may have an impact on German labour standards, I think a more balanced discussion would have tempered this with some caution about the need to ensure that minimum wages are not set so high that they contribute to higher levels of unemployment.