

**Trade, Technology and Changes in Labour Demand
Elasticities in UK Manufacturing***

Sreekala Kochugovindan

Economics Department, Queen Mary, University of London, Mile End Rd, E1 4NS;

email address: s.kochugovindan@qmw.ac.uk

There have been two main developments in the OECD labour markets in recent years. The first is the huge rise in wage inequality and the second is the reported increase in job insecurity. There is immense debate over the contribution of international trade and technological progress to these phenomena. One reason for the conflicting results may be that previous studies have examined the problem by searching for a shift in the relative demand for skilled and unskilled workers. It may, however, be the case that the demand elasticity for one or both of these worker types has changed. This may account for some of the observed changes in the labour market even though there are no significant changes in trade or relative product prices. Following Slaughter (2001), the aim of this paper is, firstly, to estimate the elasticities of labour demand over time for manual and non-manual workers in the UK manufacturing industry. Using a translog cost function, I estimated the demand elasticities from 1958 to 1986 and found that, for manufacturing as a whole, both manual and non-manual workers have become more elastic during the three decades. Secondly, by regressing the elasticities onto various measures of trade and technology, it is possible to test empirically which factors have played a greater role in labour market changes over the last two decades. My findings are that the trade variables do not have any significant effect on labour demand elasticities and technological progress has a significant impact on the elasticity of manual workers. However, the inclusion of time controls reduces the impact of trade and technology.

JEL Classification: F14, O33, J23

Keywords: Labour Demand Elasticities, Technological Change, International Trade