

Summary of the report

Trade in Services and in Goods with Low-Wage Countries

– How Do Attitudes Differ and How Are They Formed?

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The extent to which low-wage trade competition in the service sector with posted workers should be allowed in the EU has been a hot issue recently. It has concerned, for example, building workers (Sweden and the UK), plumbers (France) and butchers (Germany). The general public seems to have a more negative attitude to such imports of services from low-wage countries than to imports of goods from them.

Our report distinguishes between three types of trade: imports of goods, imports of services requiring the presence of posted workers, and offshoring of domestic production. We study how the attitudes to low-wage competition differ among these various types of trade and how these attitudes are formed. Economic and psychological research are combined to explore to what extent attitudes are based on perceived *national economic self-interest* (involving benefits for the individual herself or for a broader in-group of nationals with which the individual identifies) and to what extent they are based on *international altruistic concerns*. These are key questions as the main arguments in the public debate against low-wage trade competition reflect both these motives: fear that ‘wage dumping’ threatens domestic jobs and concerns about ‘exploitation of foreign labour’.

We performed two empirical studies of attitude formation in Sweden. The first was based on a survey of a representative sample of the population. The second involved experiments with small groups.

In the survey study we examined both *general attitudes* to different types of low-wage trade competition and *specific attitudes* regarding different dimensions of the issue. These dimensions concern ‘unfair competition’, ‘unfair wages’ for foreign labour, the benefits of ‘low prices’, adjustment (‘not too fast changes’) and the creation of ‘foreign jobs’.

The results confirm that attitudes to low-wage trade competition in services trade, requiring the posting of foreign workers, are more negative than to low-wage trade in goods. This applies both to the general attitude and to all specific attitudes except that regarding pace of adjustment.

Attitudes to offshoring are also more negative than those to conventional goods trade, but attitudes to services trade are even more negative than attitudes to offshoring.

Demographic, socio-economic and political-ideological background variables influence attitudes to trade. Being male, having a higher level of education, being a member of a union organising persons with academic education, living in a city, being a student or an entrepreneur, and having right-wing or EU-positive attitudes are all conducive to pro-trade attitudes in general. The background variables matter less for differences in attitudes among different types of trade.

The specific attitudes held by an individual to various types of trade are strongly correlated. We decomposed the differences in the general attitudes to low-wage competition in the services trade and to such competition in the goods trade into contributions from the various specific attitudes. Somewhat surprisingly, the differences between the attitudes regarding ‘foreign jobs’ and ‘low prices’ were more important than the differences between the attitudes regarding ‘unfair competition’ and ‘unfair wages’, although the latter matter as well.

The strong correlation between all of the specific attitudes and the general attitude suggests a problem of causality. It may not be that an individual simply forms an overall view from a number of specific considerations, but that an individual may also rationalise her overall view by adjusting her evaluations of different dimensions of it. Such ‘coherence-seeking’ has been suggested by research in psychology on other issues.

We designed experiments in which participants first had to state their specific attitudes to low-wage trade competition in a local context where they were not aware of the general issue (‘pre-test’). In a second stage, participants were asked about their general attitude to service provision from foreign low-wage firms using posted workers. In a third stage, participants were again asked about their specific attitudes (‘post-test’). The specific attitudes in the experiment roughly corresponded to the specific attitudes in the survey.

We found strong evidence of coherence-seeking. The differences in specific attitudes at the second stage between those in favour of low-wage trade competition and those against increased substantially between the pre-test and the post-test. The correlations between the specific attitudes were also much higher in the post-test than in the pre-test. Coherence-seeking was stronger for those opposed to low-wage trade competition than for those in favour.

The most stable specific attitude, that is, the attitude that changed the least between the pre-test and the post-test, concerned the role played by international trade versus good union-employer relationships for economic growth in the past ('historical development'). This is logical, since the issue of 'historical development' was probably the most tangible of the issues participants were asked to evaluate. When running a regression to explain the general attitude to service provision by foreign low-wage firms with the specific attitudes in the pre-test, the attitudes to 'historical development', but also attitudes regarding 'unfair competition', 'unfair wages' and 'foreign jobs' turned out to be significant.

To sum up, both perceived national economic self-interest and international altruistic motives appear to explain attitudes to low-wage trade in general, as well as why attitudes to such trade are more negative for services than for goods, although perceived national economic self-interest seems to matter more. Attitude formation seems to have both 'rational' and 'irrational' components. This holds for both those in favour of low-wage competition in services trade and those against, although the degree of 'rationality' appears to be larger for the former group.

The full report is available at www.sieps.se