A structural estimation of the trade and unemployment nexus

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This paper revisits the trade to unemployment nexus for Germany based on a trade model with heterogeneous firms and labor market imperfections. We use German establishment data provided by the IAB in order to estimate the structural parameters of the model that govern firms' selection into export. As proposed by Helpman, Itskhoki, Mündler, and Redding (2012), the empirical model for the sorting into export is based upon a Tobit type-5 switching regression. This approach allows us to recover estimates for the endogenous productivity cutoff and the average size of domestic and exporting plants. Moreover, we add important moments from existing studies based on German worker data in order to calibrate the labor market side of the model. Starting form this baseline calibration we conduct various counterfactual trade liberalization experiments where we analyze the impact of i) falling variable trade costs, ii) falling exporting fixed costs, and iii) a higher number of trade relations. Germany is the ideal laboratory for such an experiment: at the extensive margin, the share of exporters increased from 15 percent up to almost 30 percent from 1996 to 2008, which is more than a 10 percentage points increase of sorting into export. The model simulations show that such a 10 percentage points increase of sorting into export is associated with a 2 percentage point reduction in unemployment.

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