

Labor Markets and Development

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Outline

Labor Rights and Labor Standards

Right to organize and policies towards worker bargaining power *There is a substantial theoretical literature on the role that government regulation of union bargaining power might play in attracting FDI. Are countries that restrict the formation of unions more attractive to capital? The analysis would be just as applicable to domestic investment if there are open capital markets. What I have seen of it so far focuses on the problem of time consistency in government policy (the incentive for the government to allow labor to expropriate capital rents once an irreversible investment has been made). The analysis is typically done in a two period model in which long term considerations, such as reputation or continued investment, don't play a role. I suspect that time consistency is not very important and that the literature hasn't addressed the most important consideration which is the role the distribution of labor rents plays in providing incentives for the accumulation of human capital on the part of workers and a tax base for the provision of infrastructure. There is also a large legal literature on labor rights (freedom of association and assembly) vs. property rights. Besides rent extraction, the loss of management prerogative in a climate where unions are strong could also make investment less attractive to foreign firms. We will review these literatures and may provide some new analysis of the role of bargaining power in growth models with mobile capital.*

Labor standards *There is a large literature on the political economy of labor standards for developing countries, and the history of advocacy for them. There is considerable analytic work on all the specific issues covered by labor standards, though most of it is focused on the impact of such regulations in developed countries. There is much less that has been done on the specific application to developing countries though there are some topics on which substantial analytic work that has been done. At this point we are leaning towards the following summary of the issues. In general there is an efficiency cost that must be paid for increased security, equity, or social merit (though this is sometimes debated and the magnitude of the cost is always controversial). Most forms of worker protection are "normal goods" – that is they become more common as countries' incomes grow and they can better "afford" the costs. Also there is some tendency for democracies to adopt at least some types of standards before autocratic governments – probably because democracies tend to be more responsive to the interests of workers rather than firms. Given a social welfare function there will be an optimal path for the development of labor standards over time, but political*

economy models cannot tell us whether the results produced by different political systems will move too slowly or too quickly relative to the ideal. Empirical evidence does not support the view that there is a race to the bottom or that openness works against the adoption of labor standards. International institutions should both advocate against the unreasonable early adoption of first world standards but also prod laggards to adopt standards appropriate to their level of development. Some of the specific topic areas to be covered are:

Standards that have been proposed

minimum wages

hours of work

job security

pensions

safety and health

child labor *This is an area in which much work has been done. It stands out as one with a particularly complicated set of equity and efficiency concerns. Most notably, children who are working are not in school and so restrictions on child labor are complementary to compulsory schooling laws or other policies to promote the development of human capital in the young. We will pay particular attention to this sensitive area.*

Labor standards as a normal good in autocracy and democracy

Globalization's effects on labor standards -- is there a race to the bottom?

Corporate codes of conduct, labeling, other developed country legislation

Labor market discrimination *There has been a good deal written on the first two topics below and some things written on the third. All three issues are complicated by cultural factors in developing countries to a greater degree than in developed countries where such problems still remain. There is some evidence that trade and development play a positive role in reducing discrimination. We will review the evidence on the cost of discrimination and policy proposals for reducing it.*

Against women

Against religious and ethnic minorities

Nepotism

Unemployment, Income Distribution and the Two Sector Model

These four issues are inexorably intertwined in developing countries since so much of the unemployment/underemployment is located in the informal-sector/urban-fringe that consists largely of people who have emigrated from the rural/agricultural sector. Sectoral differences are a main dimension of income inequality.

Status of the Lewis model *Arthur Lewis pioneered work on the dual economy model of development. That model still inspires thinking about the development process as several recent reviews suggest. We will examine that literature and*

consider the relevance of the Lewis model to development policy. One point we will make is that no matter what the production function, the modern sector in a two sector labor surplus economy will exhibit AK endogenous growth. Thus as long as there is a highly elastic supply of labor to the modern sector savings rates will matter for growth.

Status of the Harris-Todaro model *The H-T model is one of, if not the most, frequently cited and worked with model in development economics. More than thirty years after the publication of the paper it continues to inspire a steady stream of theoretical and empirical work on two sector models of rural-urban migration. We will review and summarize the major findings in this literature including the policy implications that have been derived from such work.*

Youth unemployment *As in many developed countries, youth unemployment has been identified as a particular problem in much of the developing world. Youth unemployment is often thought to have different sources than adult unemployment and possibly serious consequences for the youth who spend long periods of time without employment. Most of the analytic work on the consequences of youth unemployment has been done using data from advanced countries, but there is a substantial literature on the causes of youth unemployment in developing countries. We will review both.*

Literature on inequality and growth *To introduce the section on income inequality I want to go over the theoretical and empirical evidence that more extreme inequality can lead people to devote more resources to fighting over division of income and less to creating more income.*

Globalization's effects on inequality *Here we will look at the evidence on how openness affects distribution of income within countries. We will also review the literature examining whether there is a falling skill differential in the developing world that is the flip side of the growing skill difference in many developed countries. The simple H-O model applied to trade in goods produced by workers with different skills would predict a narrowing differential in countries with high ratios of unskilled to skilled workers.*

Policies to address inequality and unemployment *Most obviously labor taxes, but this will also lead into the next section on social insurance.*

Social Insurance and Development

Income protection for the unemployed *We will look at the policy options open to developing countries (income support, unemployment insurance, dedicated forced savings etc.) and consider how different ones may be appropriate at different stages of development.*

Old age insurance *As with unemployment, developing countries must wrestle with difficult alternatives for providing for the elderly. We will discuss the policy*

options that are available (paygo vs. invested, public vs. private management, etc.) and how the situation of a country might affect the best choice.

Labor Markets and Growth

Promoting entrepreneurship *Entrepreneurship plays a different role in developing countries than in developed countries. Self-employment, either in agriculture or informal/urban-fringe employment is often the most important source of income for most people. A lack of people able to fill entrepreneurial roles in the formal sector may also act as a bottleneck to capital absorption. We will examine the evidence on the role of entrepreneurial labor and policies to promote/aid entrepreneurship.*

Labor rents and industrial policy in developing economies *In the late 80s and early 90s the notion that labor in certain industries might earn above market wages was advanced as a rationale for industrial policies favoring such industries. Dickens (1995) showed that for developed economies this was not an important consideration because most of the value of goods traded by advanced countries was in high labor rents industries. Thus current account balance meant that gains of rents in one industry from export promotion or protection were largely offset by losses in other industries. However, developed countries that depend largely on agricultural exports or tourism (very low labor rent industries) might be able to benefit significantly from a development/trade policy that paid attention to labor rents.*

Labor rents and investment in human capital *(See the discussion of labor rights above)*

Labor rents and the government sector *Government sector jobs in developing countries often pay considerably above market rates. If the government sector is large, government hiring policies can affect incentives for the acquisition of human capital and employment.*

Labor rents, discrimination, and nepotism *Here we will consider how the allocation of “good” jobs in the economy affects the incentives for the acquisition of human capital and through that, growth.*

Migration to developed countries *We will discuss the literature on circular flows and the role that migration and remittances play in development. We will also discuss the literature on the effects of migration on the accumulation of human capital in developing countries. We will discuss the implications for first and third world policies towards migration.*