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GLOBALIZATION AND THE LABOUR MARKET

Paper prepared by the UNCTAD secretariat for the meeting of the
ILO Working Party on the Social Dimension of Globalization,
12 November 2001

For more information, please contact Yilmaz Akyüz, Acting Director, Division on Globalization and Development Strategies, UNCTAD, tel.: +41 22 907 5841; fax: + 41 22 907 0274; e-mail: yilmaz.akyuz@unctad.org

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A. Introduction

In the two decades following the end of the Second World War full employment, steadily rising real wages and the strengthening of the welfare State were the common features of labour markets in all the leading industrial economies. As a result, the deep insecurity that had marked the conditions of workers in these countries during the inter-war period had, by the end of the 1960s, become a distant memory. All that ended abruptly with the oil price shocks and the collapse of the Bretton Woods system in the early 1970s. In continental Europe, the return of labour market insecurity took the form of sharp and persistent rises in unemployment, while in the United States and the United Kingdom increasing wage inequality between skilled and unskilled workers became the dominant trend.

The coincidence of high unemployment levels and growing wage inequality in the North with sharp increases in manufacturing imports from the South has led to concerns over a destructive link running from more open trade relations to the labour market. While recognizing that rapid trade liberalization and surges in imports can cause dislocations in the labour market, this paper argues that in today's globalizing world, the link between trade and employment cannot be properly examined independently of either overall demand conditions or the workings of global financial markets. This is also true for the impact of technological change, also part of the contemporary globalization process associated with the information-communication revolution, which is often suggested as an alternative explanation of recent labour market problems.

Under conditions of rapid capital accumulation both trade and technology can reinforce a virtuous circle of economic growth, job creation and productivity increase. If capital accumulation is sluggish and growth weak, increased trade and technical progress can add to unemployment and/or worsen income inequality. Much of the increase in unemployment in industrial countries took place before the surge in manufactured exports from the South. The importance of the macroeconomic context for understanding labour market performance is clearly demonstrated by the recent record of the United States economy, where the unemployment rate fell to levels not seen for many years despite a widening trade deficit with developing countries and the rapid spread of information and communication technologies. Indeed, these technological advances were a major factor in creating an investment boom that underpinned recent United States expansion.

On the other hand, the conventional analysis also ignores the dominant role played by finance capital in the current integration process. International capital flows have been growing a good deal faster than trade since the collapse of the Bretton Woods system, with a marked surge to developing

countries in the 1990s. At the same time, financial shocks and crises have become a much more frequent occurrence in the international economic system. As a consequence, and particularly in the case of developing countries, financial liberalization and capital movements have been a growing influence on labour market performance.

This paper thus adopts an integrated approach to labour market problems in the context of the globalization process. It begins with the links between trade and technology and labour market problems in the North. It rejects any strong direct link in either direction and concludes that a faster pace of accumulation holds the key to reducing unemployment in the industrial countries. The next section asks how liberalization has affected labour markets in developing countries. Although it finds significant differences between countries in the effects of trade liberalization on wages and employment, the impact of financial liberalization appears to have been generally negative for workers throughout the developing world. The final section draws some policy conclusions.

B. Employment and wage inequality in the industrial countries

1. North-South trade and labour markets

An important factor behind rising rates of unemployment and increasing wage inequality in most industrialized countries over the past two decades has been loss of jobs in manufacturing. This has largely been due to a displacement of unskilled labour on a significant scale in a number of industries in which developing countries have increased their market share. A number of arguments have been put forward to suggest a causal link between these two developments. First, given that the wage of unskilled workers in the South is a fraction of that paid in the North, increased trade between the two regions results in a dramatic fall in the relative price of labour-intensive goods in the North and in the wage of unskilled workers relative to that of skilled workers. Second, wage inflexibility and other market rigidities in the North determine whether workers whose jobs are destroyed by trade are absorbed into other sectors producing non-tradable and skill-intensive goods or join the ranks of the unemployed. Third, trade with the South tends to lead to significant productivity improvements because of defensive innovation and corporate restructuring in response to competition from southern exports, thereby compounding the disadvantages of unskilled workers there.[1] However, despite the analytical elegance of these arguments, a closer look at the evidence shows that the growth of North-South trade does not provide a convincing explanation of the labour market problems in the industrial countries.

a. Manufacturing trade and unemployment

The first question to address is whether the general trend of declining manufacturing jobs in industrial countries could be explained by manufactured exports from the South. While such exports have risen by more than 10 per cent per annum in volume since 1970, they are still small in relation to the developed countries' combined gross domestic product (GDP); at the beginning of the 1990s, imports of manufactures from developing countries by member countries of the Organisation for Economic Co-operation and Development (OECD) accounted for 1.8 per cent of GDP, whereas the figure in 1999 was 3.2 per cent. There are, however, notable differences among the major industrialized

countries in the extent of penetration. In the United States, the penetration ratio rose from around 0.5 per cent at the beginning of the 1970s to over 1 per cent a decade later, and by 1999 it exceeded 4 per cent. In Western Europe, where labour market problems appear to be more acute, the trend of increasing penetration has been less dramatic, rising from 0.5 per cent in the early 1970s to 2.7 per cent in 1999. Certainly, if only manufacturing output is considered, the significance of imports from the South appears considerably greater and if total manufactured imports are taken as the denominator the impact appears greater still. But in terms of any overall employment effect and in terms of the overall wage structure, the size of the national economy as measured by GDP is what matters, because labour can shift between tradable and non-tradable sectors.

In any event, for southern imports to have had a general impact on employment, they must have significantly lowered the demand for labour through the trade balance. Assuming that the labour contents of exports and imports do not undergo significant changes, a deterioration of the trade balance (at any given level of domestic aggregate demand) will almost certainly lead to declining employment. In fact, over the past three decades the North consistently ran a surplus on manufacturing trade with the South, at least up to the end of the 1990s, when the Asian crisis turned this around (chart 1). A more careful analysis reveals three distinctive phases in this relation.

Throughout the 1970s, the industrialized countries' surplus on manufacturing trade with the developing countries increased, peaking in 1981 at 2.3 per cent of total GDP. During that period, their imports from developing countries grew in volume every year (except during the recession of 1975), but exports grew even faster, especially immediately after the oil price rises. Indeed, the North's growing surplus during this period was largely due to exports to a few oil-exporting developing countries. After 1981, the surplus with the developing countries shrank. This trend continued until 1988, after which the surplus began to widen again. In real terms, the 1993 surplus was approximately equivalent to its size in 1974. During the 1990s the surplus rose again, peaking in 1997. After the Asian crisis, in 1998, the OECD for the first time in the previous 30 years recorded a small deficit with developing countries.

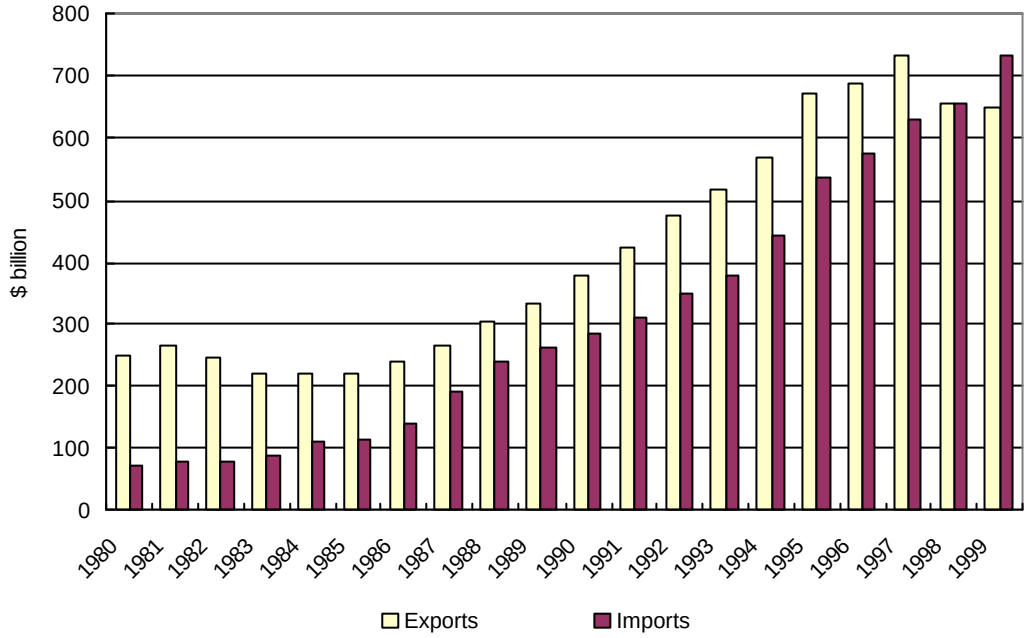
However, behind this evolution of the manufacturing trade balance for OECD countries as a whole lies a sharply diverging trade performance among the major countries (chart 2). While the trade balance of the European Union (EU) with the developing countries moved substantially in line with the OECD average, the United States and Japan diverged widely from the average, but in opposite directions. Exports from Japan in the 1980s fell modestly but skyrocketed in the 1990s with imports rising only slightly. As a consequence, Japan recorded a very high surplus even after the Asian crisis. The United States, on the other hand, suffered greater export losses in the 1980s, while it already had a much sharper rise in imports than Japan, from 1981 onwards. The United States has had a deficit since 1984. In the 1990s this pattern continued: the United States recorded a large and rising deficit which reached unprecedented levels after the Asian crisis.

Manufacturing employment in the North over this same period fell in three phases (chart 3). Of the total fall in employment, around one quarter occurred in the first half of the 1970s, more than one half from 1980 to 1985, and under a quarter during the 1990s. These declines were much more closely related to recession in the industrialized countries (1973–1974, 1980–1982, 1990–1991), and a sharp

Chart 1

Trade in manufactures[a] of OECD countries with developing countries[b], 1980–1999

(Billions of dollars)



Source: UNCTAD secretariat calculations, based on United Nations Statistical Office, *Commodity Trade Statistics.*

a SITC 5–8 (less 68).

b Including China.

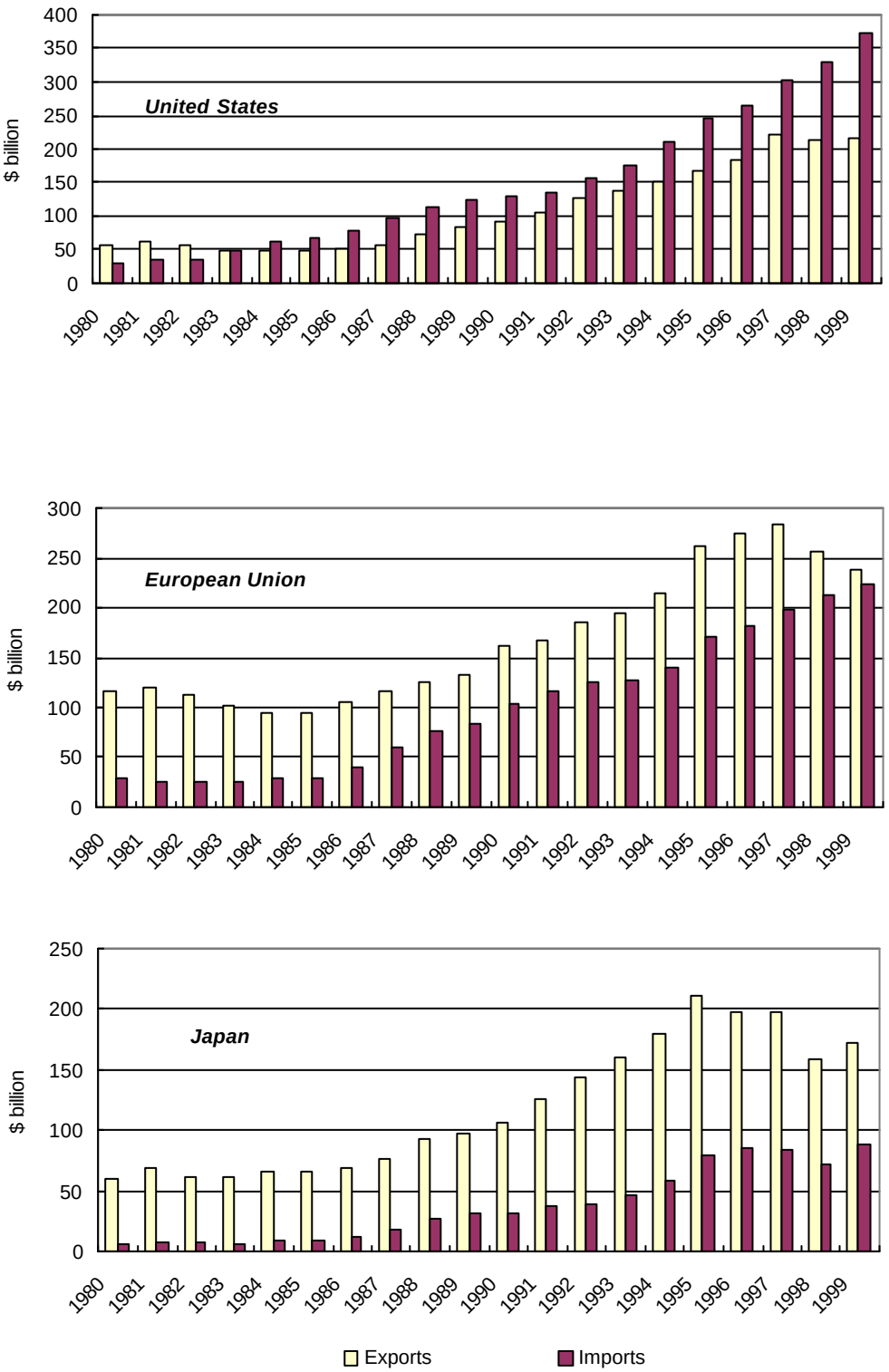
reduction of exports to the developing countries during the 1980s, than to rising manufactured imports from the latter. Indeed, manufacturing employment fell most dramatically during 1980–1985, when the manufacturing trade surplus shrank because of sharp import compression by developing countries in the aftermath of the debt crisis rather than because of an increase in their exports.[2] In the 1990s, the United States recorded an overall increase in manufacturing employment (chart 3) along with the steepest increase in manufacturing imports, whereas Western Europe (represented by the three largest countries) and Japan lost manufacturing employment, but improved their position vis-à-vis the South until the Asian financial crisis. It is remarkable that Germany and Japan, the best performers in terms of exports and trade balances with the South, were clearly the worst performers in overall growth and employment, including manufacturing employment.

Thus neither the evolution of manufacturing trade balances nor that of import penetration ratios suggests that there is any significantly close relation between North-South trade in manufacturing and unemployment. It is true that observing the evolution of import volumes and of import penetration by

Chart 2

Trade in manufactures of the United States, the European Union and Japan with developing countries, 1980–1999

(Billions of dollars)

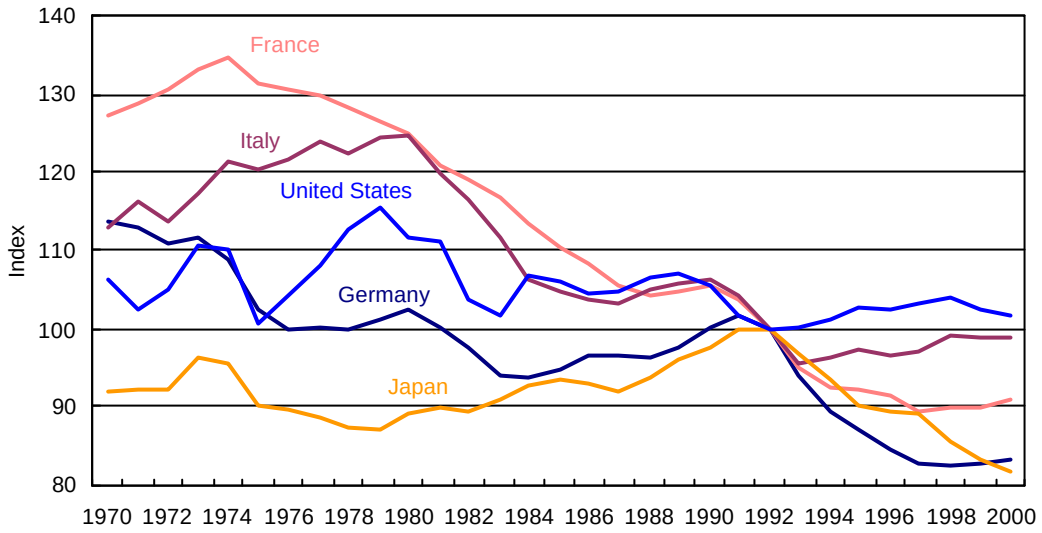


Source: See chart 1.

Chart 3

Manufacturing employment in major industrialized countries, 1970–2000

(Index numbers, 1992 = 100)



Source: United States Bureau of Labor Statistics.

developing countries in the industrialized countries does not capture all the potential North-South trade dynamics. Even if these indicators were unchanged, rapidly industrializing developing countries could still be substituting for OECD countries in the markets for manufactures of third countries. This effect would be reflected in smaller exports from OECD countries or a reduction in their import penetration of developing-country markets. Data on the latter are not available, but trade figures do not indicate that this effect has been very strong in recent years. On the whole, OECD manufactured exports to developing countries other than the newly industrializing economies (NIEs) rose substantially in the 1990s and especially to those countries showing the biggest jumps in manufactured exports.[3]

The decisive influence on the size of exports to developing countries is the purchasing power of the developing world as a whole (which is largely a function of the world growth performance, primary commodity prices, terms of trade, and access to external financing), and not so much the additional supply of such goods coming from the NIEs. It is also of some significance that the export performance of the newly industrialized economies (which account for two thirds of the increase of import penetration in manufactures by the developing countries) has not been without precedent in the past 50 years. Between 1958 and 1975 import penetration by Japan, for example, as well as by Italy, both in the United States market and in the national markets of the other five then members of the European Economic Community (EEC) was on a scale comparable to the rise of today's late industrializers. For Italy, the penetration ratio in the other EEC markets rose from 0.4 per cent to

2.9 per cent, and that of Japan in those markets from 0.1 per cent to 0.8 per cent. In the United States market, import penetration by these two former NIEs taken together rose from 0.3 per cent to 1.8 per cent. Neither in Europe nor in the United States were these developments associated with labour market problems of the kind experienced in the past two decades; rather, the opposite was true: the increasing flow of manufactures from Italy to its EEC partners was accompanied by a large migration of labour in the same direction to meet labour shortages.

b. The skill content of trade, relative wages and employment

According to traditional trade theory, for low-skill manufactured imports from developing countries to have been an important influence on labour markets in the North this rise would have had to be associated with a decline in the relative price of low-skill products. Indeed, a good deal of effort has been spent on determining whether relative prices have changed in the predicted direction. The finding of a number of research studies that the international price of skill-intensive goods has fallen over the past two decades or so relative to the price of (low-skill) labour-intensive goods has been taken as evidence against a trade-based explanation of growing inequality. However, there have been strong methodological and empirical counter-arguments. In particular, price movements do not appear to offer consistent evidence about the effect of trade because of uncertainty as to how these prices would have moved in the absence of trade and the sensitivity of the findings to the products chosen and the measurement of their skill content.[4]

There can be little doubt that differences in the skill content of imports and exports of manufactures could be a source of labour market imbalances since jobs can be lost in the industrialized countries even when net exports to developing countries are rising. The observation that unemployment in the North is higher amongst workers with the lowest educational and professional attainment has given rise to the hypothesis that it is the lower skill (but higher labour) content of imports relative to exports that has contributed to rising unemployment and/or falling real wages in these occupational groups.[5] According to this view, growing exports of skill-intensive goods to the South increase wages for skilled workers in the North but the industrialized countries cannot provide compensating job opportunities for those workers displaced by imports from low-skill manufacturing industries. Thus, to better identify the unemployment problem, the various subsectors of manufacturing industry must be classified according to factor technology or skill content.

Despite methodological problems regarding the measurement of skill content,[6] the changing employment profile of the leading industrial countries over the past three decades is reasonably clear. In the "high-skill" industries employment in the G-7 countries as a whole rose, but by only 1.5 per cent, from 1970 to 1993, while in the "medium-skill" industries it fell by 9.4 per cent. The most dramatic change has occurred in the "low-skill" industries, where close to 27 per cent of jobs (some 5.8 million) were lost – that is, more than two thirds of all jobs lost in manufacturing during this period. On the other hand, an analysis of North-South trade according to categories of skill embodied in the products reveals, not surprisingly, a deficit for the industrialized countries in low-skill goods since the mid-1980s, which is the outcome of both lower exports than at the beginning of that decade and increasing imports, especially from 1983 onwards. However, imports of such products have been levelling off since 1990, while exports have again risen in recent years, thus leading to a narrowing of the deficit.

The evolution of employment in the different skill categories thus appears not unrelated to that of trade – both have moved roughly in the same direction over the period as a whole and for the major OECD countries taken together – but the evidence does not suggest a very close relationship. This conclusion is confirmed by the evolution of employment and trade in the various subsectors within each category as well as by cross-country comparisons of sectoral employment changes.

Between the early 1970s and the early 1990s, the greatest losses in employment occurred in the textile and clothing industries (ranging from 59 per cent in the United Kingdom to 29 per cent in Japan) and the ferrous metal industry (ranging from 70 per cent in the United Kingdom to around 30 per cent in Canada). These two subsectors alone accounted for the loss of more than 5.2 million jobs in the G-7 countries over the entire period 1970–1993, i.e. almost two thirds of the total reduction in manufacturing employment. Other sectors typically losing employment were non-ferrous metals (particularly in Europe) and non-metallic mineral products (particularly in France and Italy). All these sectors are classified as low-skill. But employment fell considerably also in several medium-skill or even high-skill industries in some countries: scientific instruments in Italy, France and Canada (by 56 per cent, 28 per cent and 27 per cent respectively); the chemical industry in Italy (over 50 per cent); and fabricated metal products in the United Kingdom (about one half). While employment losses are clearly concentrated in low-skill sectors, employment gains have not been the preserve of high-skill sectors. In fact, the best employment performance in the major industrialized countries was in the low-skill rubber and plastics industry. In five of the G-7 countries employment also rose in printing and publishing, which counts among the high-skill sectors, but also from a low base.[7]

2. Technology, wages and unemployment

An alternative explanation for rising unemployment and wage inequality lies in the development and diffusion of new technologies. This explanation appeals on a number of levels, not least in shifting any suspicion away from trade. More specifically, the idea that new technologies have accelerated the pace of sectoral change in employment from manufacturing to services, as well as a shift from unskilled to skilled labour within sectors, appears to offer a very direct link with the structural problems of contemporary labour markets. In particular, the bias in contemporary technologies towards a more intensive use of knowledge inputs is seen to favour skilled workers, simultaneously raising their productivity relative to that of the unskilled. On this account, these effects have led to unemployment of the low-skilled in countries where wages are sticky and to widening wage differentials in countries where wages are flexible.

Skill-biased technological change has, in recent years, been associated with the increasing economic importance of collecting, storing, processing and distributing information. Not only has the industrial landscape already been transformed by the rise of the semiconductor and computer industries, as well as of related services, such as software design, but also the tremendous productivity improvements in these industries have brought about rapid falls in the price of information-based technologies. Coupled with improvements in the speed, capacity and accuracy of generating and managing information, this has led to the widespread use of computers, integrated circuits and robotics in both industry and households. Similar trends in satellite technology and fibre optics have advanced carrying capacity, increased the locational coverage of these technologies and enlarged the application

of related services. Information-technology goods have also become one of the most rapidly growing components of world trade.

The impact of these new technologies on labour market trends has been most extensively analysed for the United States, where differential productivity growth between skill-intensive manufacturing and the rest of the economy has been particularly pronounced and where the fall in the price of skill-intensive goods relative to other goods has been significant. These trends have coincided with a relatively fast rate of high-tech investment in such industries as electronics, machinery and chemicals, where, correspondingly, the demand for highly educated workers with problem-solving skills appears to be greatest. There is also evidence that the use of computers and the research and development intensity of jobs are both positively linked to higher wages, and it seems likely that the relative wage of skilled labour was further increased by the slower expansion of the number of college graduates in the 1980s.[8]

These various pieces of evidence have been taken as confirmation of the skill-biased technology explanation of growing wage inequality in the North in the 1980s and 1990s. However, firm- and industry-level studies, while pointing to a labour-saving bias in new production techniques, do not find a great impact of new technologies on either job creation or job destruction, which suggests that productivity improvements, along with price reductions and product improvements, have generated compensating income growth and employment.[9] Moreover, shifting from partial evidence to a more general explanation of labour market problems is not so simple. In the United States productivity growth in skill-intensive industries did not accelerate relative to other industries until the latter half of the 1980s, well after inequality (and unemployment) had begun to increase. There is also some evidence to suggest that the rising relative wages of skilled workers was strongly biased towards professional business services and legal services and that the wages of more obviously technology-using professions, such as computer specialists and engineers, actually fell relative to those of high-school graduates during the first phase of the information technology revolution.[10]

Moreover, although the higher premiums for educational attainment are consistent with a shift in demand towards more skilled labour, this cannot explain the declining ratio of unemployed unskilled to skilled labour in many industrial countries, including the United States, during the second half of the 1980s and the first half of the 1990s. Indeed, if skill-biased technological change had been the operative force in labour markets, then in countries where labour markets were less flexible, such as in Western Europe, there should have been a clear and steady rise in the ratio of unskilled to skilled unemployment. This, however, does not appear to have been the case.[11]

Finally, it is far from obvious that the pace of technological change has accelerated dramatically in the last 20 years compared with the 1950s or 1960s, when the labour force profile was also steadily shifting towards higher skills but unemployment fell to historically low levels and the relative wage of skilled and unskilled workers showed no clear trend. These decades were marked by a backlog of new technologies from the inter-war period, the introduction of which had a profound impact in such basic activities as transportation, as well as giving rise to new industries in such areas as consumer durables. It seems unlikely that the process of skill upgrading has accelerated over the past two decades at the

kind of pace that would be required in order to explain the dramatic shifts in labour market performance.

3. Investment and employment

The evidence showing a direct link from either trade or technology to rising unemployment or increasing wage gaps in the North is not convincing. Rather, macroeconomic conditions, and particularly those relating to investment, remain the decisive influence on labour market performance. Trade with poorer countries and technological change have, in fact, been ubiquitous features of the post-war economic landscape in advanced industrial economies. There is little evidence to suggest they have become more pervasive influences on the performance of these economies over the past 25 years, at least on a scale which could explain the dramatic changes in employment levels and wage inequality during this period, particularly in the manufacturing sector.

The fundamental flaw in both trade- and technology-based explanations of rising unemployment and inequality in the North is their assumption that there is always an adequate level of aggregate demand. In fact, because all technological change is embodied in human and physical capital, and because leading industrial economies must, faced with catching-up pressures from NIEs, invest in new capacity of one kind or another, any discussion of the impact of technological change or trade independently of the macroeconomic determinants of capital accumulation is unhelpful.

Since 1973 the industrialized economies have suffered from a fundamental imbalance between investment in fixed capital, productivity growth and growth of the labour supply.[12] Much of the rise in structural unemployment is related to the slowdown in investment, which in turn is closely linked to restrictive macroeconomic policies and deregulation of financial markets. Empirical evidence leaves no doubt that there is a positive correlation between investment and employment (chart 4). This means that companies tend to invest in labour and capital at the same time, rather than investing in one or the other. In good times they invest, in bad times they do not. Real investment in machines, plants and equipment rose by 150 per cent in the United States between 1990 and 2000. In Germany, by contrast, the level of investment at the end of the decade hardly surpassed that at the start. This tends to confirm one of the main lessons from the 1930s, one which seems to have been forgotten in all the talk about "fundamental reforms" and "structural deficiencies": economic policy can and should devote itself to many different tasks and solve many different structural problems.

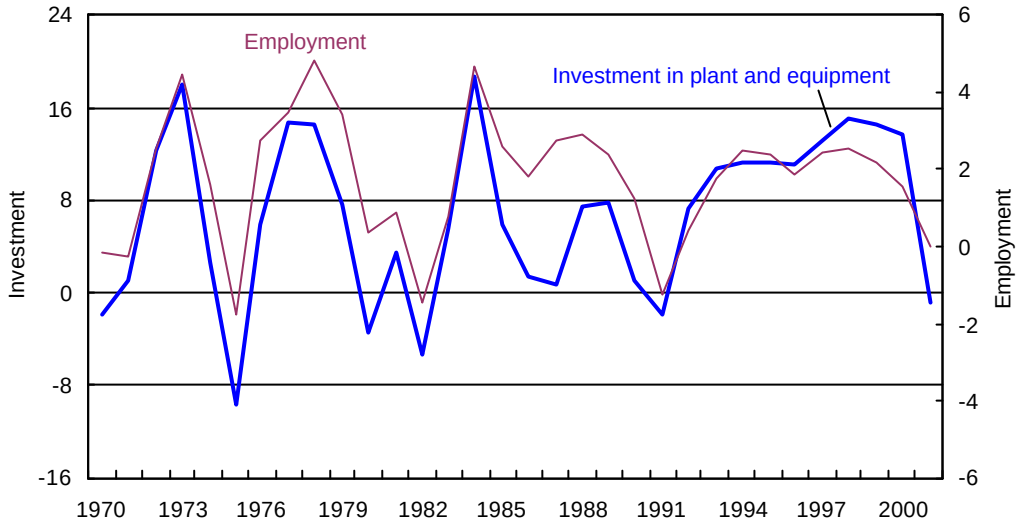
A faster pace of capital investment is unlikely to occur without a substantial improvement in business expectations concerning future sales and the key determinants of the costs of and return on investment. Macroeconomic policies are vital for improving both sets of expectations. For one thing, the level of effective demand determines total sales and profits. For another, monetary policy can directly affect the degree of macroeconomic and financial volatility and instability and thus influence the risks and uncertainties associated with investment decisions. Without policies designed to bring about a faster expansion of demand and greater financial stability, there is little hope of finding a solution to the unemployment problem. During the 1990s, only the United States Federal Reserve, among the central banks of the leading industrial economies, was willing to systematically test the limits of expansionary policies compatible with stable inflation. The resulting strong performance of investment

Chart 4

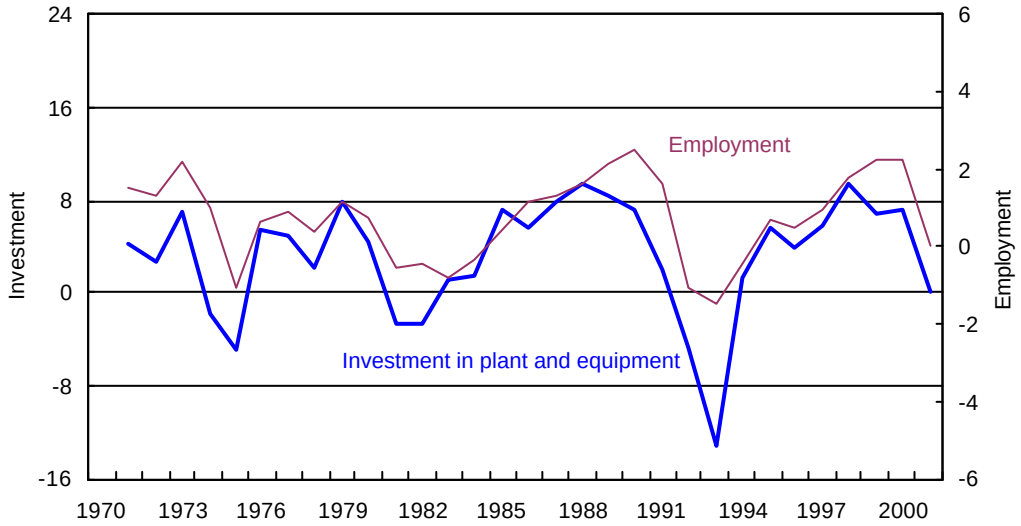
Investment in plant and equipment[a], and employment in the United States and the countries of the European Monetary Union, 1970–2001

(Percentage change over previous year)

United States



European Monetary Union [b]



Source: UNCTAD secretariat calculations, based on Commission of the European Union, AMECO-Database.

a In 1995 prices.

b Austria, Belgium, Finland, France, Germany (excluding the former German Democratic Republic 1971–1991), Ireland, Italy, Luxembourg (1996–2001), Netherlands, Portugal (1978–2001) and Spain.

in the United States in recent years, particularly in the high-technology sectors, has generated a rapid increase in productivity (particularly in manufacturing), preventing the re-emergence of inflationary pressures despite the high rates of growth and low unemployment.

The concern in other major industrial countries that faster demand expansion would only lead to faster inflation is unjustified in the current economic conditions. Not only is there a considerable slack in the labour market, but also the institutional changes that have been introduced since the beginning of the past decade and greater global integration of markets have made it much more difficult for a wage-price spiral to emerge. Given the reduced bargaining power of the unions and increased competition in the labour market, workers are wary of pricing themselves out of the market. There is also a greater realization that in today's environment of increased global competition, workers' jobs depend on the profitability of their companies. This has been a major factor in establishing a closer link between productivity and compensation. Indeed, one of the most significant features of the economic performance of all major industrial countries in the 1990s is a clear tendency for unit labour cost growth to fall and profit margins to rise. Inflation rates continued to fall in the United States and Western Europe throughout the 1990s, while in Japan the price level has actually been falling (chart 5).

The fact that unit labour costs are the most important determinant of the inflation rate is of the utmost importance for any determined effort to tackle unemployment. Since the effect of wage pressure is more directly transmitted, via rising unit labour costs, on to the rate of inflation than on to the level of employment, the parties involved in wage negotiations should not and cannot accept that they have the main responsibility for maintaining a high level of employment while monetary policy is responsible only for price stability. Consequently, a wage policy should seek to bring developments in nominal wages in line with productivity growth while making explicit reference to the central bank's targets for inflation. If nominal wages rise at the same rate as productivity plus the target rate of inflation, increases in productivity can be translated into real income and demand with the minimum friction possible. The task of creating additional jobs would then become the responsibility of other policy measures, in particular monetary and fiscal policy. That is precisely the economic policy assignment which was so successfully pursued in the United States in the 1990s. It was not so much the flexibility of labour markets that was responsible for the large increase in jobs and decline in unemployment there, but rather the flexibility of monetary policy in interpreting its responsibilities.

C. Trade, financial flows and labour markets in developing countries

In recent years developing countries have striven hard, and often at considerable cost, to integrate more closely into the world economy. Because many of these countries had long histories of more inward-oriented development strategies, the expectation was a considerable acceleration in their economic growth, diminished vulnerability to external shocks and a more equitable distribution of income. Trade liberalization would ensure the best allocation of resources according to comparative advantage, securing the export revenues needed to import key ingredients of faster growth. Financial liberalization would attract foreign capital seeking high returns, allowing the developing countries to invest more than they could save without running into payments constraints, as well as bringing technology and organizational skills through increased flows of foreign direct investment.

Chart 5

Unit labour costs[a] and inflation[b] in the United States and the countries of the European Monetary Union, 1971––2001

(Percentage change over previous year)

United States

European Monetary Union

Source: See chart 4.

a Refers to the economy as a whole.

b GDP deflator.

The growth of world trade, particularly following the completion of the Uruguay Round of trade negotiations, and, perhaps even more decisively, the recovery of financial flows to developing countries in the 1990s were taken as confirmation that a new era of prosperity was beginning to unfold. However, in the face of deep-seated imbalances and biases in the international trading and financial systems, the gains from integration in terms of faster growth, greater employment opportunities and reduced levels of poverty have so far proved disappointing. The humbling of the Asian tigers since 1997 has revealed the heightened vulnerability of even the strongest developing countries. The extent to which liberalization policies have themselves contributed to this disappointing outcome will be considered below.

1. Trade liberalization and labour market performance

According to conventional analysis the immediate impact of trade liberalization should be to change relative prices in line with a country's resource endowments. Thus, a general move towards greater openness in the world economy should be reflected in narrowing wage gaps among countries. While it is recognized that there may be temporary adjustment costs, eventually demand for labour should shift towards less-skilled workers in the South narrowing the wage gap with skilled workers and triggering a process of wage convergence between developed and developing countries.

Although a number of studies have reached the conclusion that trade liberalization in developing countries does not adversely affect employment conditions, these findings have been roundly criticized on both methodological and empirical grounds.[13] The vague definition of openness and the failure to distinguish episodes of export promotion from those of import liberalization have resulted in misrepresentation of trade regimes, and made it difficult to make cross-country comparisons and interpret the findings. Moreover, the failure to present an explicit counterfactual and biases in country selection have raised serious doubts about the validity of these studies. Indeed, the more recent evidence from liberalization episodes in Latin America and sub-Saharan Africa suggests that an increase in unemployment has often accompanied liberalization programmes.[14]

Although there were certainly other factors operating in labour markets during such episodes of trade liberalization, including those linked to macroeconomic adjustment and labour market reforms, the idea that unemployment could increase if tariff and non-tariff barriers are lowered and consumers switch from non-traded goods to imports is hardly contentious.[15] Devaluation or cuts in nominal wages could help counter rising unemployment resulting from trade liberalization, although this would come at the cost of increasing inequalities.

Growing wage inequality has indeed characterized most episodes of rapid trade liberalization in developing countries. In one study of changes in earnings of three different skill groups of labour in 10 Latin American countries in recent years, all except one of the countries experienced widening gaps between skilled workers and unskilled workers. With few exceptions, real earnings of unskilled workers fell during the periods covered, with declines exceeding 20 per cent in many cases.[16] The gap in earnings between public employees and workers in larger firms on the one hand and skilled workers on the other hand also widened in most countries, though by a lower margin.[17]

Increased wage dispersion in manufacturing during the recent period of globalization has also been reported by the ILO, for a sample of 30 countries in Africa, Asia and Latin America which compares average real wages in 1975–1979 with those in 1987–1991.[18] It was found that in about two thirds of all the countries real average wages had fallen, and that the fall was correlated with a rise in wage dispersion. The economies in which wage dispersion diminished include the first-tier East Asian NIEs, where it was accompanied by significant increases in labour productivity. The only exception to diminishing wage dispersion in East Asia is Hong Kong, China.

A number of explanations have been offered to reconcile the increased wage inequality with the mainstream trade theory based on comparative advantage. Perhaps not surprisingly technological factors have received particular attention. If trade liberalization and increased capital mobility accelerate the introduction of best-practice technology in developing countries, and if the use of such technology requires specially trained labour, the increase in demand for skilled labour may lead to a widening of the wage gap. However, a fairly sizable shift in technology would be required, which should be reflected in a sharp increase in imports of capital goods as well as in an expansion of exports of skill-intensive products. But the greater openness observed in Latin America has not generally been associated with a significant increase in investment and technology transfer. Manufacturing investment in the region has also been sluggish since rapid trade liberalization began, even in the presence of massive inflows of capital; for the seven major Latin American countries taken together, investment in machinery and equipment was lower than in the early 1980s and there was little evidence by the end of the decade to suggest that "investment rates had recovered to the point where high and sustained growth can be guaranteed".[19]

More importantly, the observed shift in wage differentials towards skilled labour has not been associated with any significant increase in the exports of more skill-intensive products.[20] In some instances demand for skilled labour has increased relative to that for unskilled labour without a significant increase in investment to upgrade the industry and move exports towards technology-intensive products. Industries producing low-technology products have replaced less-educated with more-educated labour. This skill-upgrading may have been triggered by trade liberalization when the industries concerned were no longer able to compete with imports. Also, competitiveness could not be restored simply by lowering the wages of unskilled labour: it necessitated in addition the hiring of more skilled labour.[21]

The emergence of low-cost producers of labour-intensive manufactures from Asia during this period has no doubt changed the parameters in international trade for other exporters of such products. However, its effect has not been uniform. The first-tier East Asian NIEs, where about half of the exports consisted of such goods in the mid-1980s, have responded to this new competition by restructuring and upgrading their labour-intensive exports, and by shifting towards skill-intensive products.[22] This upgrading began before imports were liberalized in the second half of the 1980s. The share of labour-intensive products in the combined exports of the two economies fell from over 40 per cent in 1985 to 25 per cent in 1994, while the share of skill- and technology-intensive exports doubled, reaching over 56 per cent in 1994. In the Republic of Korea wage differentials narrowed throughout the 1980s, while in Taiwan Province of China the trend towards widening wage inequality was reversed

in the latter half of the decade. In both cases, restructuring and upgrading were facilitated by increased supplies of skilled labour brought about by appropriate manpower policies.

It thus appears that the effect of trade liberalization on wages and income distribution differs among countries, depending on the domestic and international conditions under which it is implemented. While resource endowments are certainly important in determining comparative advantage, there are also other factors that influence the degree of competitiveness of various industries. In this respect, it is important to recall the textbook argument invoked to counter the idea that low-wage countries have an unfair competitive advantage in international trade relative to high-wage countries. It is not just relative wage costs, but unit labour costs, that determine international competitiveness. Two countries with similar relative endowments of skilled and unskilled labour can have different productivity levels in any given industry, depending on their success in learning and upgrading.[23]

Herein lies the main difference between trade liberalization in the first-tier East Asian NIEs and most other middle-income developing countries. In the former, liberalization followed the successful implementation of industrial and trade policies; protection and support were removed in large part because they were no longer needed. In the latter, on the contrary, liberalization has largely been triggered by the failure to establish efficient, competitive industries in labour- and/or skill-intensive sectors. Accordingly, the impact of increased competition brought about by trade liberalization on income distribution has been crucially different.

2. Financial liberalization and labour market performance

The 1990s have also witnessed a concerted push to open up the capital account in developing countries, accompanied by a rapid expansion of private capital flows into these countries. Differences among countries in their policy approach to capital flows and their macroeconomic effects have been examined in greater detail in past *Trade and Development Reports* as well as in a number of country studies published by UNCTAD.[24] However, against a general backdrop of rapid liberalization and deregulation of financial markets, a large proportion of these flows consisted of liquid capital attracted by short-term arbitrage margins and prospects of speculative capital gain. These have proved extremely volatile and subject to bandwagon effects, capable of generating gyrations in security prices, exchange rates and trade balances, and ultimately culminating in severe financial crises. Such volatility was a particular danger in countries where the liberalization of capital flows was prompted by the need to finance growing external deficits, as was the case in much of Latin America. But the danger was also present in countries with good records of economic management and a track record of well-managed integration into the global trading system, as was the case in East Asia.

The evidence from recent experience suggests that large swings in economic activity associated with financial boom-bust-recovery cycles have far-reaching consequences for growth and labour market conditions in developing countries.[25] Surges in capital inflows often lead to a deviation of key macroeconomic aggregates such as savings, investment, fiscal and foreign balances, exchange rates, employment and wages from their longer-term, sustainable levels. The rapid exit of capital and financial crises, on the other hand, tend to lead to overshooting in the opposite direction. The recovery process, which restores aggregate income to pre-crisis levels, generally results in a different configuration of key

macroeconomic variables from those prevailing before the outbreak of the crisis. In particular, they tend to result in large shifts in income distribution and poverty, which can be corrected only after many years of growth.

Typically, surges in capital flows to developing countries are associated with the widening of the gap between domestic income and absorption, and with rising external deficits, which often result from the effects of capital inflows themselves.[26] In East Asia the surge in capital inflows was associated with a boom in private investment, from already high levels. By contrast, in the earlier Latin American episodes and in other emerging markets, surges in capital inflows were invariably associated with a boom in private consumption.[27] The Turkish boom during 1989–1993, which in some respects resembled the Latin American pattern, was associated with a sharp rise in public spending, resulting in a large increase in the public-sector deficit as a proportion of GDP.

In East Asia the boom was associated with a rapid increase in employment and real wages, but in general labour productivity rose even faster, notably in the Republic of Korea. The gap between real wages and productivity growth provided a cushion against the falling profitability of exports after the mid-1990s.[28] By contrast, both the Latin American and Turkish booms were characterized by increases in real wages in excess of productivity, and unemployment continued to rise, as in Argentina and Mexico (and also in Brazil), or stayed high, as in Chile and Venezuela. In addition, in Argentina, Brazil and Mexico rising wages were accompanied by declining levels of formal employment and increases in the labour force in the informal sector.[29]

The policy of reliance on capital inflows to support a consumption-led growth based, at least partly, on rising wages had a populist twist as it helped to correct some earlier distortions in income distribution at the expense of labour. Indeed, most Latin American episodes and the Turkish boom had been preceded by a period of significant erosion of real wages and by large declines in the share of wages in industrial value added. This populist policy mix thus served to avoid hard policy choices and allowed price stability to be achieved without running into distributional conflicts. However, since this situation depended on maintaining capital inflows, the rapid exit of capital and the decline in economic activity laid bare the latent conflicts, often leading to a redistribution from wages to profits.

Labour market conditions deteriorated in all countries with the outbreak of the financial crisis. Indeed, it appears that reduced incomes and employment in organized and informal labour markets have been the main social conduit of the adverse impact of financial crises on poverty and equality.[30] Rising informalization and disguised unemployment appear to have been the trend almost everywhere in Asia, but despite such flexibility and generally declining participation rates, unemployment rose in all crisis-hit countries.[31]

Declines in wages and growing unemployment combined to produce a sharp increase in poverty throughout the region. In 1998 the number of people living on less than $1 a day was estimated at 65 million in the East Asian economies taken together, 10 million of whom were crisis-precipitated. These figures rise to 260 and 30 million, respectively, if the poverty benchmark is put at $2 a day.[32] Among these countries, poverty appears to have increased most in Indonesia and the Republic of

Korea, a critical factor having been a faster increase in food prices than in prices of other consumer goods, particularly in Indonesia, where inflation accelerated rapidly.

The impact of financial crises on wages, employment and poverty was similar in earlier episodes in Latin America. In some cases the adjustment was more in terms of declines in real wages, which exceeded 20 per cent between the peak and the trough (e.g. in Mexico and Venezuela). The decline also exceeded 20 per cent in Turkey. In other Latin American episodes, wage declines were moderate, but there were sharp increases in the unemployment rate in the order of 6–10 percentage points, as in Argentina during 1995–1996 and in Chile during the Southern Cone crisis.

The impact on poverty in Latin America was equally devastating. Although growth during the first half of the 1990s had resulted in a gradual reduction of the high poverty levels inherited from the 1980s, even before the subsequent crises there were still more than 200 million people living below the poverty line. One reason for the persistence of such high numbers was that growth in Latin America during the 1990s was generally accompanied by growing income inequalities. Taking into account the adverse impact of financial crises from the mid-1990s onwards, ECLAC estimated that the decade would end with higher levels of poverty than those of the 1980s.[33]

The sharp deterioration in the conditions of labour, particularly among the unskilled, is a major reason why the reduction in poverty levels has so far lagged behind economic recovery in East Asia. Indeed, empirical studies show that there is a significant asymmetry in the impact of growth and crises on poverty in developing countries: the poverty-alleviating impact of a given rate of growth is significantly weaker than the poverty-augmenting impact of a comparable decline in GDP.[34]

The persistence of widespread poverty and declines in wage incomes despite the recovery of output provide *prima facie* evidence that financial cycles result in regressive income distribution. However, it appears that for various reasons related to data problems as well as conceptual difficulties, the standard measures of income distribution cannot always capture such changes. In the Republic of Korea, for instance, the data show that while in the first quarter of 1995 the incomes of the richest 10 per cent were about 7 times those of the poorest 10 per cent, they were more than 10 times higher in the first quarter of 1999.[35] By contrast, Gini coefficients appear to have remained unchanged in Indonesia and Thailand, despite substantial increases in the poverty-stricken population in both countries.[36]

It is also extremely difficult to assess the equally important impact of financial crisis on wealth destruction, which appears to have hit primarily small- and medium-sized enterprises that provide extended family employment opportunities. The loss of income and employment in these sectors probably increases the share of population dependent on wage labour and leads to an increase in formal unemployment. It may also contribute to the rise in saving ratios and explain the lag in consumption observed after the crisis as attempts are made to keep family-owned businesses alive.

D. Conclusions

During the 1980s mass unemployment and growing wage inequality became a veritable scourge across much of the industrial world. These problems persisted in many countries during the 1990s. How they are dealt with will influence the future course of all economies, whether developed or developing, given their interdependence.

Despite growing support for globalization, liberalization and outward-oriented development in the industrialized countries, labour market problems have been blamed on imports of manufactured products from the South. The solutions proposed range from erecting import barriers ("protectionism"), to imposing higher labour standards on southern producers ("social clause"), to lowering labour standards in the North ("flexible labour markets"). Each of these responses – including the third, favoured by advocates of free markets and minimum government – would slow the industrialization of developing countries without resolving the labour market problems in the North.

While trade provides only a superficial explanation of unemployment and wage inequality, the same can also be said for the most popular alternative – technological change. Both factors have, indeed, tended to reduce the demand for unskilled labour in industrial countries. But dislocations of labour as a result of new competition or new technology are nothing new in economic history, and, besides, demand for skilled labour has also been weak in many countries. What, then, has made it so difficult for the labour displaced by structural change to find remunerative work elsewhere in the economy?

The root of the problem lies in the slow pace at which demand, output and investment in most industrialized countries have been expanding over the past two decades. Even if labour is made less costly to employers and more skilled, business will invest on the scale required to provide more and better jobs only if it is confident of buoyant sales. The strong labour market performance of some industrial countries during the 1990s provides ample evidence that unemployment and growing wage inequality in the North do not have an international origin. Notably in the United States, but also in some smaller European economies, trade with the South has been consistent with achieving the goal of full employment.[37] Moreover, the coincidence of full employment and "the new economy" based on information technology during the 1990s calls into question simple structural explanations of unemployment in the developed economies.

With the obvious success of some countries in the North in reducing unemployment by demand management and high growth rates, the conventional policy approach needs to be reconsidered across the developed world if labour market security is again to become the norm for working people. The effective answer lies in appropriate macroeconomic policies to increase productive investment and expand employment. Under these conditions both trade and technology can reinforce a virtuous circle of economic growth, job creation and productivity gains. This will certainly require better policy coordination among the leading industrial economies along with more effective governance of international capital flows than has been the case since the collapse of the Bretton Woods system, and a better managed exchange rate system among the G-3 currencies.[38]

With the resumption of rapid and sustained growth, full employment and opening of markets in industrial countries in areas of export interest to developing countries, the South would have a chance to tackle simultaneously its development challenges and its labour market problems. Such a strategy would mean "all-boats-afloat"; it would create jobs in the North while benefiting – not hurting – the South. At the same time it would remove the main threat to the liberalization of trade. This approach may seem politically out of reach. But any further deterioration of labour market conditions in the North could threaten social stability and lead to beggar-my-neighbour policies, exacerbating conflicts among nations, and jeopardizing the stability of the international trading system.

Improvement in labour market conditions will also require a reorientation of development policies at the national and global levels, particularly with respect to the speed and pattern of integration of developing countries into the global economy. Rapid and premature liberalization after the debt crisis of the 1980s, not underpinned by appropriate institutions and productive capacity, has been a source of steady deterioration in labour market conditions in many Latin American and African economies, frequently compounded by ineffective or misguided adjustment programmes. In Asia even countries with a history of strong output and employment growth fell victim to volatile capital flows and economic policy errors, with the burden of adjustment falling heavily on wages, employment and social conditions. Rapid financial liberalization, in many cases representing a reversal of years of more measured integration into the global economy, was a major factor.

Regaining control over financial markets and reduced reliance on external private capital flows will be a central policy challenge for all developing countries in the coming years. Policies to invigorate productive investment, stimulate technological upgrading and enter new markets will also be needed. For many developing countries, building and strengthening capacity in the manufacturing sector remains the surest way to increase productivity, allowing for both higher wages and export competitiveness. Experience shows that market forces cannot be relied upon to realize this goal and that a mixture of macroeconomic and industrial policies will be required in order to strengthen capital accumulation and private entrepreneurship. Furthermore, the international community will have to face up to the pronounced external constraints on development and to the need for exports and development assistance, rather than unstable private capital flows, to underpin a return to rapid and sustained growth in developing countries. All of these are essential ingredients of a successful strategy for improving labour standards in developing countries.

Notes

[1] See e.g. Adrian Wood, *North-South Trade, Employment and Inequality: Changing Fortunes in a Skill-Driven World*, chap. 7 (Oxford, Oxford University Press, 1994).

[2] It has been estimated that the reduction of the OECD trade surplus in manufactures with developing countries during the 1980s due to lower exports was more than double the reduction due to the rise of imports. See UNCTAD, *Trade and Development Report (TDR), 1995*, tables 28–29. Over the entire period 1970–1993 the swing in net manufactured exports, as a share of GDP, for the G-7 countries taken together has been in the same direction as the change in employment, but this does not hold for either individual countries or for shorter periods.

[3] See *TDR, 1999*, Part Two, chap. IV.

[4] See *TDR, 1995*, p. 133, and the references therein.

[5] A recent variant of this approach suggests that the growth of outsourcing by northern multinational corporations has become an increasingly important channel for exporting unskilled jobs; see R. Feenstra and G. Hanson, "Global production sharing and rising inequality: A survey of trade and wages", NBER Working Paper No. 8372, July 2001.

[6] The skill content of a sector is usually measured as the share of "production" workers in total employment. However, classifying sectors is not without problems since it depends on the definition of sector size and the level of disaggregation. Discrepancies resulting from sector definition are of particular importance for some of the most dynamic subsections of manufacturing, such as communication equipment and semiconductors, and office and computing equipment, which, if treated separately, would fall within the high-skill industries, whereas if included in the more traditional and broadly defined "non-electrical and electrical machinery" sector would be classified as part of the medium- or low-skill industries.

[7] *TDR, 1995*, pp. 139–143.

[8] See E. Berman, J. Bound and Z. Grilliches, "Changes in the demand for skilled labor within US manufacturing: Evidence from the annual survey of manufacturing", *Quarterly Journal of Economics*, February 1992; A. Krueger, "How computers have changed the wage structure: Evidence from micro data 1984–89", *Quarterly Journal of Economics*, February, 1993; A. Bartel and F. Lichtenberg, "The comparative advantage of educated workers in implementing new technology", *Review of Economics and Statistics*, February 1987.

[9] See C. Freeman and L. Soete, *Work for All or Mass Unemployment? Computerized Technical Change into the Twenty-First Century* (London, Pinter, 1995).

[10] See B. Pierce and F. Welch, "Changes in the structure of wages", Texas A&M University, mimeo, 1994; and P. Krugman, "Past and prospective causes of high unemployment", paper for economic symposium of the Federal Reserve Bank of Kansas City at Jackson Hole, 25–27 August 1994.

[11] See S. Nickell and B. Bell, "The collapse in demand for the unskilled and unemployment across the OECD", *Oxford Review of Economic Policy*, vol. 11, Summer 1995.

[12] The details of this imbalance are spelt out in greater detail in *TDR, 1995*, Part Three, chap. III.

[13] The most prominent of these studies is D. Papageorgiou et al., *Liberalizing Foreign Trade in Developing Countries* (Washington, DC, World Bank, 1990); see also S. Matusz and D. Tarr, "Adjusting to trade policy reform", World Bank Discussion Paper, No. 2142, 1999. For critical reviews see D. Greenaway, "Liberalizing foreign trade through rose-tinted glasses", *Economic Journal*, vol. 103, pp. 208–222, 1993; E. Buffie, *Trade Policy in Developing Countries*, chap. 6 (Cambridge, Cambridge University Press, 2001); and G. Helleiner, Remarks in panel discussion, in V. Thomas et al. (eds.) *Restructuring Economies in Distress: Policy Reform and the World Bank* (New York, Oxford University Press).

[14] For discussions of these findings, see E.J. Amadeo, "The knife-edge of exchange-rate-based stabilization: Impact on growth, employment and wages", UNCTAD Review *1996* (United Nations publication, Sales No. E.97.II.D.2); A. Ravenna, "Employment and wage effects of trade liberalization: The case of Mexican manufacturing", World

Bank Discussion Paper, No. 1542, 1994; M. Rama, "The labour market and trade reform in manufacturing", in M. Connolly and J. de Melo (eds.), *The Effects of Protectionism on a Small Country* (Washington, DC, World Bank, 1994); Buffi, op. cit.

[15] Buffi, op. cit, p. 190.

[16] *TDR, 1997*, p. 135.

[17] Economic Commission for Latin America and the Caribbean (ECLAC), *The Equity Gap. Latin America, the Caribbean and the Social Summit* (LC/G.1954 (CONF. 86/3)), Santiago, March 1997, p. 60. Additional evidence is presented in D.J. Robbins, "HOS hits facts: Facts win evidence on trade and wages in the developing world", Development Discussion Paper, No. 557, Harvard Institute for International Development, Cambridge, MA, October 1996; C.A. Pissarides, "Learning by trading and the returns to human capital in developing countries", *World Bank Economic Review*, vol. 11, no. 1, January 1997; and A. Wood, "Openness and wage inequality in developing countries: The Latin American challenge to East Asian conventional wisdom", ibid. Despite the mounting evidence about the impact of trade liberalization on increased earnings inequality in Latin America, a recent study by the Inter-American Development Bank (IADB) reports a positive effect of trade liberalization on personal income distribution. However, no attempt is made to reconcile these findings with all this other evidence to the contrary; see J.L. Londoño and M. Székely, "Sorpresas distributivas después de una década de reformas: América Latina en los noventa", mimeo, IADB, February 1997.

[18] *World Employment Report 1996/97* (Geneva, ILO, 1996), table 5.9 and related text.

[19] ECLAC, *Equity, Development and Citizenship*, p. 233 (Santiago, ECLAC, 2000).

[20] *TDR, 1997*, p. 136.

[21] M.I. Cragg and M. Epelbaum, "Why has wage dispersion grown in Mexico? Is it the incidence of reforms or the growing demand for skills?", *Journal of Development Economics*, vol. 51, 1996.

[22] Differences in the ability of different countries to respond to increased competition in labour-intensive products are also reflected by movements in the manufacturing terms of trade. During 1979-1994 the world price of manufactured exports of developing countries fell relative to that of the skill-intensive exports from industrial countries by about 2 per cent per annum. The decline was largest in LDCs, followed by ACP, Latin American and Mediterranean countries, while it was significantly smaller in East Asia; for the Republic of Korea, the manufacturing terms of trade indeed moved favourably during that period. See *TDR, 1996*, Part Two, chap. III.

[23] *World Development Report 1995. Workers in an Integrating World* (New York, Oxford University Press for the World Bank, 1995), p. 58.

[24] See *TDR, 1999*; UNCTAD, *International Monetary and Financial Issues for the 1990s*, vol. VIII (United Nations publication, Sales No. E.97.II.D.5), New York and Geneva, 1997; and G. Helleiner (ed.), *Capital Account Regimes in Developing Countries* (London, Macmillan, 1998).

[25] These experiences include the recent financial crises in East Asia, Latin America and Turkey and some earlier episodes of financial crisis in other parts of the developing world, including the Southern Cone crisis in Argentina and Chile in the early 1980s. Most of these episodes were examined in past issues of the *TDR*. For the Asian crisis see *TDR, 1998*, chaps. II and III, and *TDR, 2000*; the crisis in the Southern Cone *TDR, 1998*, Part One, annex to chap. III; and in Mexico and Argentina in 1994–1995, *TDR, 1995*, Part Two, chap. II; see also the discussion of the Brazilian crisis in *TDR, 1999*, chap. III.

[26] See *TDR, 1998*, Part One, chap. III.

[27] See also ECLAC, *Equity, Development and Citizenship* (LC/G.2071), Santiago, March 2000, p. 224.

[28] During the boom phase of the cycle it was only in the Republic of Korea, among the four most affected countries, that the divergence between the growth rates of the dollar wages and real wage costs (i.e. nominal wages deflated by the index of wholesale prices) was not large; the cumulative increases from the base to the peak were 114 and 104 per cent, respectively. The corresponding figures were 59 per cent and 44 per cent in Indonesia, and 117 per cent and 34 per cent in Thailand; see *TDR, 2000*, pp. 62–65.

[29] Industrial employment declined during 1992–1994 in Argentina and 1990–1994 in Brazil and Mexico, while the share of informal employment rose in all three countries; see E. J. Aimed, op. cit. Using a broad sectoral classification, ECLAC estimates that urban informal employment rose from 44 per cent of the total in 1990 to 58 per cent in 1998 (ECLAC, op. cit., fig. 5.1). According to ILO data, manufacturing employment declined by 5 per cent and 8 per cent during the early 1990s in Argentina and Mexico respectively, and by 10 per cent from 1990 to 1997 in Brazil.

[30] This view is shared in almost all recent World Bank publications on the East Asian crisis. See also I. Diwan, "Labour shares and financial crises" (preliminary draft), Washington, DC, World Bank, November 1999. According to another study, incomes of the poor do not fall more than proportionately during economic crises; see D. Dollar and A. Kraay, "Growth is good for the poor" (preliminary draft), March 2000 (www.worldbank.org/research). Studies on income distribution by the UNCTAD secretariat show that the economic crisis beginning in the early 1980s was associated with a rise in the share of the top 20 per cent at the expense of the middle classes rather than the poorest 20 per cent. It was also noted that crises could generate a process of "equalizing downwards" in rural economies in Africa, but it is not clear whether such results could be generalized to emerging markets facing sharp declines in output due to financial crises; see *TDR, 1997*, Part Two, chap. III.

[31] See Asian Development Bank, *Asian Development Outlook 2000*, Manila, 2000, p. 51; World Bank, *East Asia: Recovery and Beyond*, Washington, DC, 2000, pp. 117–119; and G.L. Clerissi, "Impact de la crise sur le marché du travail en Thaïlande", mimeo (Les Notes des Postes d'Expansion Économique), Bangkok, November 1998; Jong-Il You and Ju-Ho Lee, "Economic and social consequences of globalization: The case of South Korea", Working Paper No. 17, New York, Centre for Economic Policy Analysis, New School University, February 2000.

[32] World Bank, op. cit, table 1.8a. See also World Bank, *East Asia: Recovery and Beyond*, table 1.2.

[33] ECLAC, op. cit., p. 66. The number of households living below the poverty line in Latin America rose from 35 per cent to 41 per cent from 1980 to 1990, rising in all countries except Chile (ECLAC, *The Equity Gap: Latin America, the Caribbean and the Social Summit*, LC/G.1954, Santiago, March 1997, table 1.2). The ratio had declined during 1990–1997, but at 36 per cent it was higher in 1997 than in 1980. During this period the share of the poor rose in both Mexico and Venezuela. On the other hand, in 13 Latin American countries for which data for the same period are available, the Gini coefficient rose in nine and declined in four (ECLAC, *Equity, Development and Citizenship*, March 2000, chap. 2, sect. 3(c)).

[34] World Bank, *Global Economic Prospects and the Developing Countries 2000*, p. 54.

[35] H-S. Chang and C-G. Yoo, "The triumph of rentiers: The 1997 Korean crisis in a historical perspective", paper presented at the workshop on the World Financial Authority, New School for Social Research, New York, 6–7 July 1994, pp. 32–33.

[36] One explanation is the fact that household surveys on income disregard relative price changes in countries (such as Indonesia) where the poor faced significantly higher inflation than the rich. Another is that household surveys undertaken in 1998 included questions about household incomes during the preceding year (i.e. 1997) and therefore failed to capture the full impact of the crisis. On these empirical issues, see World Bank, *East Asia: Recovery and Beyond*, 2000, pp. 114–116.

[37] For the success of smaller European countries see K. Rotschild, "Europe and the USA: Comparing what with what?", *Kyklos*, vol. 53, 2000.

[38] See *TDR, 2001*, Part Two, for further details.