How International Exchange, Technology, and Institutions Affect Workers: An Introduction

Ishac Diwan and Michael Walton

In a world of deepening trade links, rapid technological change, and weakening institutions, workers in rich and poor countries alike are concerned about their incomes and the security of their work. In contrast to the substantial quantity of analysis on industrial countries, relatively little careful work has been done on these issues in developing countries, especially in the context of the recent globalization of economic relations. Empirical work suggests that disequalizing trends in some developing countries may have been caused by the entry of low-income countries such as China into world production or by the greater quality and technological requirements of contemporary trade in goods. Whatever the source, these results raise questions about the viability of institutional mechanisms for supporting the income security and working conditions of workers. Many labor market regulations are already ineffective owing to weak enforcement capabilities. However, in most developing countries, there will be a rising fraction of workers in formal labor contracts, rising demands for formal mechanisms for dealing with income insecurity, and a potentially larger role for unions in an important segment of the workforce. Thus, it is of increasing importance to set the policy and institutional framework in a fashion that is both consistent with competitive pressures and supportive of workers' participation and security.

Rising wage disparities in the United States, persistent unemployment in Europe, and "hollowing out" (relocation abroad of production jobs) of employment structures in Japan reinforce workers' concerns about international economic relations and domestic institutional changes. Institutional support systems for workers—from European-style welfare states to Japanese-style firm-based security—are being forced to adapt to international competition and the shifting labor demands of new technologies. These workers' concerns have parallels in developing countries, where state-directed employment creation—whether through protection for industrial jobs or central planning—has been ineffectual.

New concerns over employment in developing countries resonate with two long-standing employment debates: the debate about the consequences of open-

Ishac Diwan is with the Economic Development Institute, and Michael Walton is with the East Asia and Pacific Region, both at the World Bank. The authors wish to thank Martin Rama and Adrian Wood for their comments. This symposium issue is made up of articles that were originally prepared as background papers for World Development Report 1995: Workers in an Integrating World.

© 1997 The International Bank for Reconstruction and Development / THE WORLD BANK
ness for workers and the debate about the kind of regulatory and institutional framework that can support the security and working conditions of workers in a labor market usually dominated by rural and informal workers outside the ambit of formal rules.

These old issues have acquired fresh topicality for several reasons. First, although some talk of globalization is overblown, the circumstances of the 1990s differ from those of previous decades for the developing world. With the fall in protectionism and the demise of central planning, the proportion of the world's workers who are shielded from the influence of international economic forces likely will drop from around two-thirds in the late-1970s to about one-tenth by the end of the 1990s (see World Bank 1995b). Second, evidence from some countries, especially in Latin America, indicates that wage inequalities increased over the past decade, coinciding with rising openness. Third, workers in many countries perceive as a threat the entry of China and other low-income countries into international trade. Fourth, increasingly, people in rich countries worry about the conditions of work in poor countries and are afraid that international exchange will force all workers into insecure work in unhealthy conditions. And fifth, within countries, workers and policymakers debate about the role of labor regulations, unions, and public employment policy in a world of rising interconnections and apparently rapid structural change.

The employment debates are rarely informed by careful analysis. The articles in this issue seek to address some of the open questions about the influence of international and institutional developments on labor incomes. The articles have two points of departure. One focuses on technology, international transactions, and workers' skills. The other highlights the effects of domestic institutions—regulations, government employment policies, unions, and political structures—on the labor market.

This introductory article surveys some of the important issues for both current policy and future work. Section I discusses issues relating to international transactions, technology, and skills. Section II discusses the role of domestic institutions and regulations in an internationally integrated environment. Section III concludes.

I. INEQUALITY, TECHNOLOGY, AND INTERNATIONAL TRANSACTIONS

The fear that development goes hand in hand with increased inequality—the so-called Kuznets curve—has until recently consistently been rejected by careful empirical evidence (see, for example, Little 1982; Deininger and Squire 1996; and Bruno, Ravallion, and Squire 1996). Indeed, it has become more common in development circles to argue that development can be equalizing. For example, World Bank (1993) shows a positive link between growth and more equal income distribution in East Asia. In addition, others have also argued that and have presented empirical evidence supporting the claim that (a reasonable degree of) equality is good for development (Alesina and Rodrik 1994; Perrson
and Tabellini 1995). We are concerned here with an alternative view: that some dimensions of inequality are rising and that this may be associated with aspects of international integration—through trade in goods, flows of capital, or migration—and with technological change.

Many economists believe that as countries become more open to trade, inequality falls in relatively poor countries with abundant unskilled labor and rises in their richer trade partners. This view—developed by Krueger (1978 and 1983) and more recently by Wood (1994)—makes perfect Heckscher-Ohlin sense. It also seems consistent with a set of stylized observations: (a) that as they became more open to external exchange, most industrial countries have suffered an adverse shock to the relative demand for unskilled labor in the past twenty years (Wood 1994); (b) that over the same period, inequality fell in the fast-growing, export-oriented Asian countries (Wood 1994); and (c) that during the globalization episode that also took place in the late nineteenth century, inequality fell in the labor-abundant countries of the Old World and rose in the resource-rich countries of the New World (Williamson 1996).

International migration and flows of capital potentially also affect wage inequality in poorer economies. Outmigration tends to tighten local labor markets, and the inflow of capital raises the real wage and hastens the labor market transition to industrial and service-based work. Although the poorest workers generally do not migrate, and even capital associated with unskilled work may directly employ only workers with basic education, virtuous cycles tend to develop, with international flows helping to equalize growth. With respect to the late nineteenth century, Williamson (1996) finds that migration was more important than trade in explaining rising inequality in the New World and falling inequality in those parts of the Old World that were rapidly integrating.

In trying to understand the empirical evidence, it is important to take into consideration changes in the relative supply of different categories of workers, since this also influences labor market outcomes. To the extent development is associated with increased education, the return to skills should fall on this account. For societies starting with low levels of education, the expansion of skills plays a powerful equalizing role. Indeed, in the United States, the rising relative supply of educated workers underpinned the "great compression" of relative wages that occurred in the 1940s and masked the disequalizing shifts in demand until about the mid-1970s (Goldin and Margo 1991; Katz and Murphy 1992). In a recent study of the Korean experience (Kim and Topel 1995), a large expansion in the relative supply of education was associated with a large decline in wage inequality. The study also reveals the mechanisms whereby sharply changing structures of labor demand translated into declining inequality in an initially agrarian society. The growth of manufacturing was accompanied by a wholesale shift of employment out of agriculture. The manufacturing sector attracted new entrants to the labor force: young educated urbanites, who stayed in this sector throughout their careers while older workers moved directly from rural areas and agriculture into cities and service employment.
New Views

Recent literature has raised the possibility that international interactions generate rising inequality, using frames of reference other than the Heckscher-Ohlin model. Most of the work in this new literature focuses on experiences in industrial countries. In the United States and the United Kingdom, the already large inequality in earnings has grown throughout the 1980s and 1990s (OECD 1996). By contrast, most other industrial countries have had small changes, with slightly equalizing trends in the 1990s in some, including Canada, Germany, and Japan.

In most industrial countries, unemployment rates among unskilled workers have doubled or tripled since the 1970s. Many analysts have argued that where relative wages have not been allowed to adjust, as in Europe, adverse shifts in demand have caused particularly severe rises in unskilled unemployment owing to sclerotic labor markets (Krugman 1995; Freeman 1995). But Nickell (1996), for example, points out that Norway, with a sclerotic labor market, has less unskilled unemployment than the United States, with a flexible one, and that the United Kingdom, with a flexible labor market, has higher unskilled unemployment than most other European economies. He concludes that labor market institutions explain only part of the differential unemployment performance and suggests that countries with low unemployment have better-educated unskilled workers.

Although the reality in rich countries is complex, most observers start from the view that there have been adverse relative demand shifts against unskilled labor. One debate about the reasons behind this has been couched in terms of trade versus technology. The most influential writings on this score are perhaps those of Wood (1994), Krugman and Lawrence (1993), Lawrence and Slaughter (1993), and Learner (1995). Another debate focuses on free versus controlled migration; here, the more convincing arguments are perhaps those of Bhagwati (1991) and Borjas and Freeman (1993). Most analysts accept that trade, technology, and migration all matter, with important country-specific variations (see World Bank 1995b).

New evidence from some developing countries also indicates a rise in inequality. A series of recent studies has shown that income and wage inequality has risen in Mexico in the last decade (Feenstra and Hanson 1994; Revenga 1994). Pissarides (this issue) and especially Wood (this issue) survey recent evidence from several countries. As Wood stresses, these recent results are in sharp contrast with earlier studies that show, mainly in the Asian context, equalizing growth strongly related to the opening of trade and expanding supply of skills in Hong Kong, Korea, Singapore, and Taiwan (China) in the 1960s and 1970s. Either rising wage inequality or rising income inequality has been observed in the mid-1970s to early 1980s in Argentina and Chile; in the mid-1980s to early 1990s in Colombia, Costa Rica, and Mexico; by the end of the 1980s in Egypt and Jordan; and recently in China, Hong Kong, and Thailand. The evidence of
rising inequality is based largely on household surveys; the Mexican studies, using enterprise surveys, also find rising inequality between production and non-production workers.

Almost all developing economies have experienced rapid changes in the relative supply of skills. Robbins (1996a) attempts to disentangle supply and demand shifts, building on the work in the United States. In a series of nine case studies (Argentina, Chile, Colombia, Costa Rica, Malaysia, Mexico, the Philippines, Taiwan (China), and Uruguay), he concludes that underlying shifts in demand almost always increase inequality, although in some cases these are masked by large equalizing shifts in relative supply. Robbins further argues that the disequalizing changes in demand are often associated with trade liberalization and, in particular, the skill-intensive requirements of contemporary trade.

Tan and Batra (this issue) present a microeconomic story that is consistent with these trends. They use evidence from firms in Colombia, Mexico, and Taiwan (China) to study firms' decisions with respect to capital investment, training, and exports. They also investigate the effect of those decisions on labor productivity, wages, and wage differentials. The results are both striking and intuitively appealing. Productivity and wages rise with all of these decisions, but, although all workers gain from in-firm training (workers appropriate about two-thirds of the productivity gains), white-collar workers and other workers already possessing high skills gain much more than blue-collar workers. The premium that skilled workers receive in firms undergoing technological change compared with the premium they receive in firms not investing in training are surprisingly large: 42 percent in Colombia, 54 percent in Mexico, and 32 percent in Taiwan (China). The comparable premiums for unskilled workers are positive but small (22, 11, and 7 percent, respectively). Unskilled workers appear to gain relatively little from the introduction of new technologies, while the productivity of skilled workers rises quite dramatically. This is strong evidence that technological change favors skilled workers.

*Trade, Migration, and Technology*

As Wood (this issue) argues, the new observations are consistent with some of the old explanations. The trade and migration arguments are likely to apply to the middle-income developing countries where disequalizing trends have been observed recently. The technology arguments, in contrast, are likely to apply to all countries.

In his view the trade argument relates not only to changing patterns of protection, but also to increased competition from new entrants to the global markets—China and India, which have huge reservoirs of cheap unskilled labor. With the takeoff of these countries' exports since the early 1980s, unskilled wages could have been depressed globally, especially in middle-income countries that produce competing goods. In a general equilibrium model that disaggregates skill levels, we found that middle-income countries, especially those in Latin America, were hurt by the entry of low-wage countries into world exports
In addition, evidence links the deterioration in the commodity terms of trade, which has hurt African countries in the past three decades, to efficiency-improving methods introduced in East Asian countries.

International labor mobility can also cause rising inequalities in middle-income countries. Inequality is much larger internationally than in any one country—the international Gini coefficient is close to 0.70 but is substantially less than that in national settings—and has been rising steadily (Berry, Bourguignon, and Morisson 1989). Even though labor mobility has not risen in recent times in global terms, its nature has changed, and it now increasingly involves unskilled workers moving into middle-income and rich economies (Borjas and Freeman 1993). For example, Borjas and Freeman estimate that migration displaces unskilled workers in the United States at least as much as do imports from developing countries. Indeed, competition for jobs from migrants is more direct.

The trade and technology arguments are, at some level of abstraction, tough to disentangle because technical change is itself partly driven by increased competition (see Wood 1994). Increased openness to trade itself exacerbates the influence of new technologies, because trade liberalization induces more imitation, makes reverse engineering easier, and makes complementary imports cheaper. Increased openness also increases competition, thereby increasing the incentives to imitate. Pissarides (this issue) reviews the evidence on this.

But unlike the trade explanation, the technology story may well affect poorer countries, which tend to copy new technologies, even when they are not appropriate for their needs. As the richer North leaps ahead in education in order to escape competition from cheap labor, new technologies could increase inequality in poor countries, and the process of globalization could leave behind an increasingly large part of the world.

There also seems to be something new about the current globalization. Recent years have witnessed an acceleration of change. The recent demise of communism and end of the cold war, the conclusion of the Uruguay Round, the initiation of peace in South Africa and the Middle East, faster integration in Europe, Asia, and the Americas, and the seeming acceleration in technological change in the communication industry all have led to faster change in the patterns of production and trade. In an environment of global change, Pissarides argues that the returns to skills must rise because skills facilitate the adaptation to newness. This argument applies well to Eastern Europe, China, India, and even Latin America, where the recent wave of liberalization was sudden compared with the relatively slow and deliberate changes that occurred in East Asia.

In periods of change, skills become especially valuable, because they are needed to acquire and put in place new technology. Micro-evidence presented by Foster, Rosenzweig, and the Rural Indian Economic Growth Research Group (1996) for India shows how the returns to schooling rose significantly during the green revolution. The new, high-yielding seed varieties were potentially much more
productive than the traditional seeds, but significantly more sensitive to the use of such inputs as water and fertilizer. Because farming profitability depended so critically on the allocation of inputs, the ability to decode information became more valuable. In the states most affected by the green revolution (such as the Punjab), the profit differential between educated and uneducated farmers—with a focus on primary education—was as high as 40 percent. 

Accepting such a view on the relationship between change and inequality, the recent rise in inequality in a number of economies could be temporary. If change slows—for example, as the consequences of opening work their way through an economy—inequality will fall.

The Role of Capital Mobility

Capital movements from rich to poor economies pull down wages in the former and pull up wages in the latter. But these effects are small relative to total investment levels in industrial countries and have clearly not offset global trends of divergence between countries (Pritchett 1995; World Bank 1995b). Capital movements amplify existing international and national trends. Countries with good domestic investment environments attract mobile international capital. Foreign direct investment frequently follows where other firms have previously gone—as found in one study of Japanese foreign direct investment (Kinoshita and Mody forthcoming). Within East Asia, for example, Japanese foreign direct investment and increased flows of investment from Hong Kong, Korea, Singapore, and Taiwan (China) have facilitated huge shifts in the international structure of production in the past two decades.

Within countries, the effects of capital inflows may equalize or disequalize wages, depending on the nature of shifting production structures. Inflows of foreign direct investment into labor-intensive production appear to have accelerated, leading to equalizing absorption of surplus unskilled labor into industry in countries such as Bangladesh, Malaysia, and Mauritius. But foreign capital can be relatively intensive in skills. Feenstra and Hanson (1994) argue that, with a range of production technologies, the marginal activity that moves from, say, the United States to Mexico will have factor proportions that are intensive in unskilled labor, compared with relative labor supplies in the United States, but intensive in skilled labor, compared with relative labor supplies in Mexico. These effects could increase inequality in both places.

Policies That Directly Affect Wage Differentials

In some countries, in addition to the effects of derived demand and relative supplies, direct policies affect wage differentials. A potentially important force leading to rising wage or income differentials is the recent demise of state efforts to influence the workings of labor markets. Whether through central planning or regulation, state intervention in setting wages and work conditions has been strong in large parts of the world but is now receding everywhere. Typically, such intervention, coming from a socialist and egalitarian background, has led
to compressed wage schedules. The reversal of such policies restores returns to education to a normal level.¹

In some cases, a policy of subsidized education as the primary means of social mobility has exacerbated labor market policies. Assaad (this issue) describes this phenomenon in Egypt. In this case, and in other countries in the Middle East and North Africa, inequality increasingly results from falling demand for a certain type of skill. Reforms put new kinds of skills at an advantage and can effectively reverse past educational policies. Similarly, labor market reforms in economies that successfully held up the wages of low-paid workers can lead to wage decompression, as appears to have occurred in Chile in the 1970s and Italy in the 1990s (see Robbins 1996b on Chile and OECD 1996 on Italy).

In the end, whatever the deep reasons for the current wave of inequality, how societies respond to change will determine its effects. An optimistic view is that new technologies are cheaper than the old ones, capital is increasingly mobile, and the possibility of leap-frogging into modernity is increasingly open to flexible societies ready to attract and apply new technologies to production. Therefore, temporary inequality could buy a lot of growth. But this result depends on both the skills and the institutions of the society and, in particular, on how the education system, training in new technologies, and the interface between labor and firms adapt to new circumstances. Whether the new inequality will persist and rise, or fall rapidly, will ultimately depend on how societies organize their labor market, education, and production-related institutions.

II. INSTITUTIONS AND OUTCOMES FOR WORKERS

Labor market institutions affect the determination of wages and inequality. Will they matter less as reliance on domestic and international markets rises, capital becomes mobile, and technological change requires more “flexible” and shifting labor? We argue that institutions are crucial determinants of the consequences of market-driven change for workers. Institutions can influence both the extent to which economies participate in global advance and the extent to which different groups of workers within a country participate in national advance. However, many existing institutional arrangements in developing and transition economies are moribund. The issue is institutional reform, not institutional destruction.

Formal institutions affecting the labor market evolved historically in response to two pressures. First, the development of formal labor contracts in modern firms led to the creation of a legal and institutional framework for employer-worker relations.² Second, societies and workers wanted certain workplace rights,

¹. A normal level would be a ratio of average wages of workers with secondary education to average wages of workers with primary education of 4–5. A ratio of 2–3 would reflect wage compression.

². We treat the formal sector as including the portion of employment with some form of formal labor contract. The usual proxy for informal employment is nonwage employment (including family workers) plus wage employment in very small establishments. Clearly, there will be some purely casual employment in large firms and some effectively formal relationships in small firms.
conditions of work, and income security. Some of these demands also apply to informal contracts, and there is widespread evidence of complex contractual arrangements, in rural labor markets in particular, that evolved in response to the problems of managing risk and providing incentives for work when monitoring is imperfect. Here we are concerned with formal institutions.

**Job Creation in Protected or Public Sectors**

In the past few decades, the predominant employment model in both centrally planned and most developing countries has been the creation of formal sector jobs in industry, supplemented by government jobs to varying degrees. In developing economies with a protectionist labor market, this model provided "good" jobs to only a few workers. It failed to develop a modern sector responsive to the needs of the market economy and fostered labor market dualism. The core mechanism involved the creation of rents in protected or public sectors for a limited number of workers who obtained access to good jobs. Implicit or direct taxation of other sectors financed the rents.

Egypt provides a clear example of the power of institutions to affect labor demand and supply, with potentially severe long-term effects. The policy mix for most of the past thirty years involved a combination of protectionist industrialization, educational expansion, and public sector employment expansion—with a job guarantee for secondary and tertiary graduates. As Assaad (this issue) shows, this led to severe job rationing and queuing. Even with the sharp drop in public sector wages since the 1980s, there is still an implicit premium on government jobs—especially for women, who suffer less discrimination in the public than in the private sector. The premium on government jobs interacted with the education system to produce an excess supply of the wrong kinds of skills, with significant compression of wage differentials for skills.

The employment strategy also failed under central planning, but with a very different dynamic. In Eastern Europe and the former Soviet Union, massive creation of "good" jobs, especially in industry, was accompanied by widespread job security provisions. But this turned out to be a chimera. Many good jobs quickly became bad when subject to the market test, and the legacy of cradle-to-grave income protection remains a major fiscal problem. Moreover, even when the jobs were there, they were neither noted for healthy working conditions nor for industrial democracy. By contrast, central planning in China did not lead to the hugely accelerated employment shifts of the Soviet Bloc. In 1978, at the inception of China’s transition from central planning, some 80 percent of the employment was still in agriculture. This has greatly eased employment aspects of the subsequent transition (Sachs and Woo 1994; World Bank 1996b). However, the "modern" jobs that were created in government and the state enterprise sector receive a much higher degree of income protection and social benefits than in market developing economies. These are only beginning to be disentangled in the mid-1990s in the current phase of reform.
Effects of Protective Labor Market Policy

Many analysts believe that protective labor market policy contributes to poor economic and employment performance, in both rich and poor economies although actual evidence is sparse (see OECD 1994 for industrial countries). Freeman's (1993) review did not find general evidence in support of the view that labor regulations had significant economic costs, nor did a set of case studies of labor in the adjustment process (Horton, Kanbur, and Mazumdar 1994). A cross-country analysis of Latin America by Rama (1995a) did find that a synthetic index of labor market distortions reduced growth by about half a percentage point (after controlling for other factors), but most of this appears to be associated with unionization and perhaps with public employment as opposed to regulations.

One interpretation of these results is that labor market regulations that go against the market fail. Squire and Suthiwart-Narueput (this issue) model the incentives to evade and avoid distorting labor market regulations, using minimum-wage law as an example. They show that where regulations are binding, compliance is characteristically low, especially (but not only) in developing countries. They also show that once compliance is endogenized, there is likely to be an upper limit to efficiency losses. And such binding regulations tend to be in protected sectors—public and industrial. Here the better conditions are a form of rent-sharing. In the public sector, a labor cost-raising regulation may actually bring choices closer to an efficient solution, to the extent that it offsets a tendency toward excess employment.

Where unions have some degree of independence, their influence often appears to be negative for overall economic and employment performance. Freeman and Medoff (1984) discuss the contrast between the monopoly aspects of union behavior and the potentially productivity-raising gains from unions giving a voice to workers. Rama (1995b) and Standing (1992) provide evidence that unionized sectors experience relatively slow employment growth. Rama estimates that in Jamaica, employment in highly unionized sectors grew 2 to 5 percentage points slower than other sectors in 1986–93. Standing estimates that in Malaysia, employment in sectors with industrial unions grew 5 percentage points slower than sectors without unions or with plant-level unions.

Unions have often been resistant to needed economic reforms—whether in Indian trade liberalization or in Latin American public sector reform. Devarajan, Ghanem, and Thierfelder (this issue) illustrate the potential importance of understanding union behavior in modeling economic change. They use Bangladesh as an example of a small but powerful unionized sector in protected industries. Exploring the effects of alternative assumptions on union behavior, including the option of unions bargaining simultaneously over employment and wages, as in the McDonald-Solow model, they find potential additional benefits of disprotection through trade liberalization when unions are present. Their results show that unions can matter but that the additional gains from liberalization are based on reducing the rents to union members.
At first glance, recent history looks gloomy for labor policy and institutions. One conclusion of the failure of employment strategy in countries with high levels of protection or central planning might be that labor policy needs to be deregulated. A superficial interpretation of East Asia’s extraordinary success in both growth and modern sector employment creation is that it shows the advantages of flexible, unregulated labor markets. We argue the opposite here. Indeed, rising international integration adds to the case for reform of some labor regulations. Overall, however, three trends in international labor markets highlight the growing need for effective institutional arrangements for labor in much of the world:

- The secular rise of modern wage work in all regions except industrial countries and the former Soviet Bloc
- Increased domestic and international demands for stronger workplace rights, including freedom of association and better working conditions
- The declining efficacy of informal mechanisms for dealing with working conditions and income security as populations become more urbanized and work becomes more formalized.

Politics will continue to matter crucially for institutional choices. But the view that repression of labor institutions is necessary to get favorable results for employment and wage outcomes is debatable. Banerji and Ghanem (this issue) explore the empirical relationships between measures of political and civil liberties and both trade and labor market outcomes. They find that on average more liberal regimes are associated with more open trading and less labor market dualism. Authoritarian East Asian countries are the exception.

It is also a mistake to interpret East Asia’s success in terms of a flexible, regulation- and union-free, neoclassical economist’s ideal. In fact, countries in East Asia have had diverse labor arrangements. Unions have been severely restricted in Korea (especially in the period preceding democracy) but have extensive rights in Hong Kong and Japan (see Freeman 1993; World Bank 1996a). Korea has highly pervasive labor regulations, notably on job security, and an extensive government presence in areas that in many countries would be subject to collective bargaining. State enterprise workers in China have unparalleled levels of protection and are extraordinarily immobile by international standards. East Asian countries are often characterized as having a cultural tradition of reliance on the family (see, for example, Rohwer 1995). But the elderly in Japan are living less with their families than before, and the richer newly industrialized countries, including Korea, Malaysia, and Singapore, all have significant expanding forms of formal social insurance.

An important rationale for unions is that flexible arrangements for production organization and information flow yield potential productivity benefits that could be on the rise with more sophisticated technologies. However, these benefits—as opposed to the potential monopoly effects of unions—are more
likely to be reaped with a predominantly firm-based form of industrial relations within competitive product markets (see World Bank 1995b; Pencavel 1991 and 1995). Unions also have other important benefits, including protecting individual workers from abuse, monitoring health and safety regulations, and reducing gender and ethnic discrimination. For example, MacIsaac and Rama (1996) find that the significant discrimination experienced by women and indigenous employees in Ecuador disappears for union members; Patrinos (1994) finds comparable results for Mexico. Women tend to be over-represented (compared to the private sector) in the well-protected public sectors of Egypt and Jordan (Assaad, this issue; World Bank 1995b). Unfortunately, carefully documented research on both productivity and other effects is still rare in developing countries. Thus, policy will have to proceed with some uncertainty, creating conditions for unions to operate, reforming areas where monopolistic practices are probable (especially in the public sector), and not expecting unions to be able to solve all labor’s problems.

Where does this leave labor regulations? Despite the weak evidence, a highly differentiated view is desirable at this juncture. Guarantees of rights for unions are desirable, but not monopoly privileges. Measures to protect the vulnerable are important, but not widespread mandates on working conditions. Public action to reduce income insecurity is clearly justified, but the design of interventions is crucial. In addition, the functioning of education and training systems will have a powerful complementary effect on labor market performance. Although government intervention remains of central importance in this sector, here, too, the form of this intervention is now the subject of many debates. Although it goes beyond the scope of this introduction to review this area, solving the quality problems that affect many developing-country school systems will be critical to producing school leavers with the wherewithal to acquire changing skills during the course of their working lives.

III. Conclusion

Increased trade linkages, mobile capital, and technological change are raising new questions over the attainment of old employment objectives. Debates in rich countries on insecurity of work and unemployment of unskilled workers find strong echoes in recent evidence from some developing and transition countries. As the articles in this issue illustrate, many of the debates are still current. They involve questions of how to achieve reasonable degrees of equity, satisfactory workplace conditions, and income security in the face of apparently rising market pressures. These debates also raise fundamental questions concerning the role of institutions that affect labor market outcomes, although evidence on the effects of alternative institutional arrangements is particularly scarce.

The answer is not institutional destruction. Societies that successfully put in place effective institutions are more likely to capture international gains. Three
areas of institutional innovation are likely to be central in the coming years: workplace organizational forms, formal mechanisms for the management of household risks, and education and training systems. These innovations are likely to be complementary: the greatest payoff will come from action in all three areas together. And it is likely that future research will have a rich payoff in this central domain for households and economies.

REFERENCES

The word "processed" describes informally reproduced works that may not be commonly available through library systems.


