Regional Perspectives on World Development Report 1995

THE EMPLOYMENT CRISIS IN INDUSTRIAL COUNTRIES

Is International Integration to Blame?

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Contents

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CHAPTER 1

International Integration and the OECD's Employment

The industrial countries are in the midst of a long-term employment crisis typified by persistent unemployment in Europe and rising wage inequality in Australia, Canada, the United Kingdom, and the United States. At the same time, the industrial countries have experienced a surge in international interactions with countries that have large numbers of much poorer workers—that is, with developing economies and, increasingly, those in transition from central planning. Many commentators portray these two developments as connected. There is a concern that workers in industrial countries—especially unskilled workers—are losing out as low-wage economies like China take over production of labor-intensive goods and middle-income countries like Mexico upgrade into the production of more skill-intensive products. Apprehension over job losses and declining wages is exacerbated by fears of multinational capital heading to lower-cost producers in Eastern Europe, Latin America, and Asia.

This report analyzes these linkages. It concludes that the fortunes of industrial country workers and their counterparts in poorer countries are indeed interconnected but that international linkages account for only a small part of the plight of those suffering long-run unemployment or declining wages. It also concludes that future gains from rising interactions with the developing and transition economies are likely to outweigh the losses. Industrial countries are already benefiting from the growing integration of developing and transition economies into the global economy as such countries absorb a large, and growing, share of industrial country exports. The potential for additional gains is large.

But increasing integration is also likely to entail significant adjustment costs. Workers in labor-intensive industries and low-skill occupations may bear the brunt. Reaping the full benefits of integration will be easier if these workers are helped through domestic policies. Policies to ease the cost of adjustment for those adversely affected can be crucial in curbing protectionist pressures in industrial countries, and to the realization of a world in which deeper international integration fuels growth in industrial, developing, and transition economies.

In the past few decades the pace and scale of global integration have accelerated. In the late 1970s about two-thirds of the world's labor force lived in countries largely insulated from international markets by prohibitive trade barriers and capital controls or by planned trade. Today, three giant population blocs—China, the countries of the former Soviet Union, and South Asia—with nearly half the world's labor force are entering the global market, and many other countries, from Mexico to Turkey, have already established strong linkages. By 2000 less than 10 percent of workers may be living in countries that are disconnected from world markets.

An integrating world

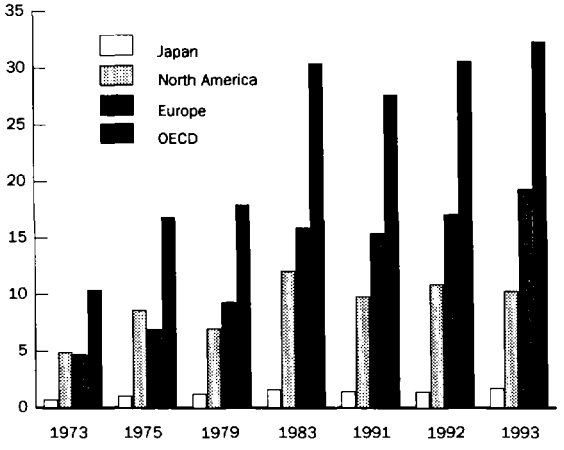
Trade is the main channel of economic integration. The movement of goods and services across borders has grown dramatically in recent years, from 23 percent of world GDP in 1970 to about 40 percent in 1990. Developing and transition economies contributed significantly to that increase. In 1987–92, U.S. exports to developing and transition economies grew by more than 13 percent, while those to other industrial countries grew by 8 percent. Between 1991 and 1993 developing and transition economies accounted for almost 75 percent of the increase in world exports and contributed decisively to pulling industrial economies out of recession. By 2010 developing and transition economies will account for 30 percent of world imports and 22 percent of world exports of manufactures (World Bank 1995a).

Private capital flows to developing and transition economies totaled $175 billion in 1994, more than four times the 1989 figure of $42 billion (all on a net basis), although still a much less important form of economic interaction between countries than trade. Overall, the transfer of capital resources from rich to poor countries has played only a moderate role in complementing domestic savings: under the extreme assumption that savings

Unemployment levels in the OECD have tripled since the early 1970s

Figure 1. Unemployment levels in OECD regions, 1973–93

(millions of unemployed workers)



Source: OECD 1994a.

rates remain unaffected by these flows, about 11 percent of capital formation in developing and transition economies in 1970–90 could be attributed to the cumulative effect of capital mobility. For industrial countries, capital outflows represented only 2 percent of their capital stocks in 1990.

Migration follows trade and capital flows as the third most important channel of international interactions. Since the 1960s the flow of migrants to industrial countries has risen and its composition has shifted, with most migrants coming from developing and transition economies. Between 1965 and 1990 the share of immigrants in the total work force increased from 3.5 to 5.0 percent in Europe and from 6 to 8 percent in the United States. As with other forms of international exchange, there are large possibilities for mutual benefit.

Declining demand for unskilled workers in industrial countries

If unemployment in the industrial countries were low and wages were rising rapidly, few people would worry about any ill effects of international linkages. The surge in trade with developing and transition economies, however, has occurred against a backdrop of rising labor troubles in the industrial world. Over the past fifteen years, industrial countries have struggled with two deeply worrisome labor market trends reflected in rising and persistent unemployment throughout much of Europe, and stagnant real wages and growing wage inequality in the United States. Many analysts argue that both trends are manifestations of the same phenomenon, linked to global integration. According to this view, increased trade with developing and transition economies is putting particular pressure on low-skill manufacturing in industrial countries, with low-skilled workers bearing the brunt of adjustment through lower wages or higher unemployment.

Unemployment in industrial countries started to trend upward in the early 1970s (Figure 1). Between 1972 and 1982 the number of unemployed almost tripled. Strong economic growth in the second half of the 1980s brought some reduction in unemployment, but these gains were quickly erased by the recession of the early 1990s. Unemployment is currently estimated at 35 million people for the OECD as a whole, about 8.5 percent of the labor force. Unemployment is not, however, evenly distributed. The average for the European Union is 12 percent, twice the level in the United States and four times that in Japan. These official unemployment rates may even underestimate the true extent of joblessness, since many job-seekers have given up looking for work. Indeed, Europe's jobless dilemma appears even more acute when judged by employment to population ratios, which have fallen steadily among men since the 1960s. Despite similar growth performances, some European countries have employment to working-age population ratios that are 10 to 20 percentage points lower than those of Japan or the United States (Table 1).

These differences in unemployment performance across industrial countries are commonly attributed to differences in employment growth paths. North America has been creating

Despite similar growth performance, employment rates are lower in Europe than in North America or Japan

Table 1. Employment rates and output growth, 1972–90

(percent)

Country	Employment 1972	Employment 1990	Change in employment rate	Average annual output growth, 1972–90
Japan	70.7	73.2	2.5	3.8
United States	62.2	70.9	8.7	2.6
United Kingdom	69.9	69.0	–0.9	1.9
Austria	64.9	68.8	3.7	2.6
Australia	67.6	67.5	–0.1	3.0
Canada	59.9	67.3	7.4	3.3
Norway	59.2	64.4	5.2	3.5
Germany	57.9	61.7	3.8	2.4
Italy	55.9	54.6	–1.3	2.7
France	50.6	51.6	1.0	2.5
Spain	58.5	47.5	–11.1	3.0

Source: Revenga and Bentolila 1995.

jobs at 1.8 percent a year since 1960, and Japan at 1.2 percent. In contrast, annual employment growth in the European Union has been a dismal 0.3 percent. The other side to North America's better employment performance, however, has been slower labor productivity growth and stagnant real wages. Annual real wage growth in the United States averaged only 0.3 percent in the 1980s, down from 2 percent in the previous two decades (Figure 2). Moreover, in the same period wage inequality in the United States increased dramatically (and also rose in Australia, Canada, and the United Kingdom).

In the United States the increased disparity in wages has been associated with falling real wages for low-skilled male workers. Real earnings of those in the lowest decile of earners have fallen by 10 percent since their peak in 1979. The declines in real earnings have been even more dramatic for young unskilled workers—for young men with a secondary education earnings fell by as much as 20 percent in the 1980s. (By contrast, those of young men with a college education increased by 11 percent in real terms.) The fall in the real earnings of unskilled U.S. men has prompted concerns that better unemployment performance has been at the expense of a growing number of "working poor." Real earnings for men in the lowest decile have also declined in Australia and Canada, raising similar concerns there (Figure 3).

One way or another, all industrial countries are experiencing declining demand for unskilled labor. Where relative wages have been flexible (Australia, Canada, and the United States), the shift in demand against the unskilled has translated into rising wage inequality, but relative unemployment rates have remained largely unchanged. Countries with more rigid wage structures (such as those of continental Europe) have been spared the increase in wage dispersion, but at the cost of rising unemployment (Figure 4).

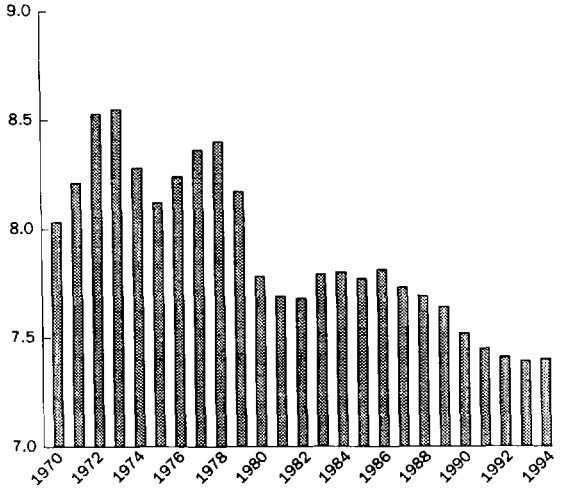
Are linkages with developing and transition economies to blame?

These labor market developments have coincided with a surge in exports from developing and transition economies to industrial countries, leading many observers to blame this trade for the labor problems of industrial countries. Such claims seem largely unfounded. On net, the effects of trade with developing and transition economies do not seem large enough to account for the massive shifts in labor demand that have occurred within the OECD. Past developments, however, do provide some cause for concern: to the extent that they reflect the inability of industrial countries to adequately adapt to changing global conditions and new technologies, they may portend difficulties as integration proceeds.

There is no doubt that competition from developing and transition economies has increased: industrial country imports of manufactured goods from these countries rose from 3 percent

Real wages have stagnated in the United States

Figure 2. Average hourly earnings in the U.S. private sector, 1970–94
(1982 dollars)



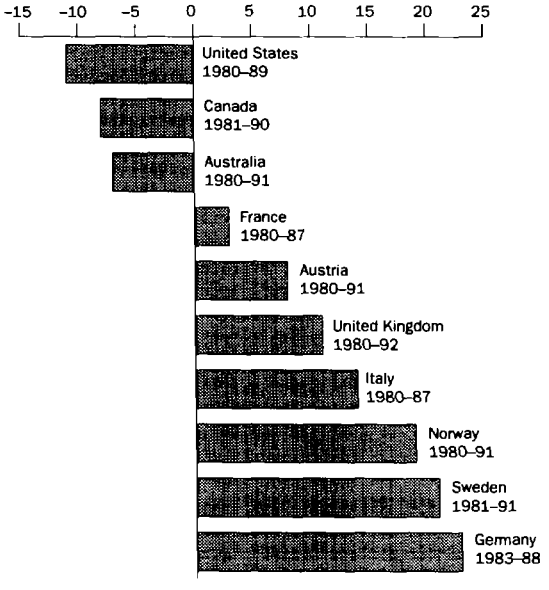
Source: U.S. Council of Economic Advisers 1995.

of the value of manufacturing output in 1970 to 12 percent in 1992. But these imports are still just a small proportion of GDP (Table 2). And on a net basis, the changes have been modest. Even in the United States, where imports from the developing countries have grown the most, deterioration in the trade balance with developing and transition economies is estimated at less than 1 percent of GDP—a change too small to explain the stagnation of real wages throughout the economy or to account for a 6.6 percent drop in the share of manufacturing in GDP. Developing country trade is even less plausible as an explanation for Europe's malaise, since changes in Europe's trade balance with these countries have been negligible.

Import penetration is only one of many measures of increased competition from developing countries. And it is not necessarily the most comprehensive. Trade with developing countries could exert competitive pressures on industrial country employment and wages that are not reflected in changes in import penetration. For example, firms in industrial countries could respond to increased competition from developing country exports by lowering their prices and maintaining market share. Employment and wages would still feel the effects of increased competition, but measures of import penetration would not show them. Studies of the impact of changes in relative prices or trade barriers on industrial country employment and wages, however, have found small or moderate effects at best (Grossman 1987; Lawrence and Slaughter 1993; Revenga 1992).

Real wages of low-skilled workers have fallen in some industrial countries . . .

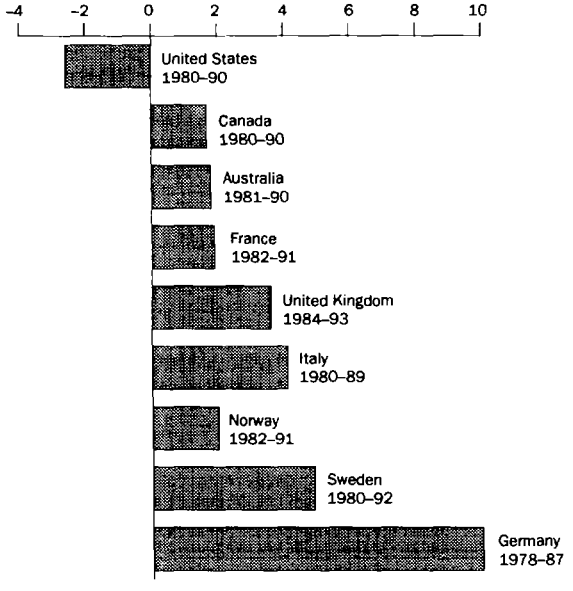
Figure 3. Cumulative change in real wages of lowest paid workers
(percent)



Source: OECD 1993.

. . . while unemployment among low-skilled workers has increased in others

Figure 4. Change in unemployment rate of low-skilled workers
(percent)



Note: Change in unemployment rate of blue-collar workers. For Germany and Italy, change in unemployment rate for workers with less than a secondary education.
Source: OECD 1994a and 1994c.

Industrial country trade with developing and transition economies has increased but remains small relative to GDP

Table 2. Trade with non-OECD countries
(percentage of GDP)

	1962	1972	1982	1992
OECD				
Imports	2.54	2.60	5.21	3.77
Exports	2.42	2.54	4.70	3.72
United States				
Imports	1.13	1.26	3.37	3.76
Exports	1.42	1.34	2.92	3.11
Europe				
Imports	4.40	3.94	6.66	4.03
Exports	3.64	3.44	5.95	3.93
Japan				
Imports	4.08	3.77	7.49	3.28
Exports	4.17	4.21	6.58	4.25

Source: OECD 1994b.

Even if trade with developing and transition economies cannot explain the stagnation of real average wage growth in the United States or the dismal employment performance of Europe, could it account for the deteriorating relative position of unskilled labor? Indeed, economic theory predicts that competition from lower-wage countries will reduce the demand for unskilled workers. But empirically the question remains controversial: most analyses conclude that trade with developing and transition economies can explain only 10 to 30 percent of the observed demand shifts against unskilled labor. And although some studies find more extreme results, most calculations of factor content suggest that during the past two decades trade with developing economies reduced the demand for workers by only 1 to 3 percent of total employment (2 to 5 percent of the unskilled labor force; see also World Bank 1995a).

The effects of trade seem particularly modest when compared with other economywide changes that affect labor markets. The fast growth of the service sector is one structural shift that may

have had important effects: in the United States alone employment in services increased by 6 million workers in 1970–92. Labor-saving technological change also may have played a role. Evidence from the United States, for example, suggests that the ratio of skilled to unskilled employment has increased considerably in all industries since the 1970s—a finding that is inconsistent with the predictions of trade theory but quite compatible with the effects of across-the-board skill-biased technical change. And in the high-unemployment economies—Australia, Canada, Europe—rigidities in labor and product markets may have inhibited adjustment to globalization and technological progress and contributed to the employment problem.

In addition to concerns over trade, many naysayers have voiced fears that the industrial countries will become "decapitalized" as capital relocates to developing and transition economies in search of cheap labor. These fears are motivated largely by the growing presence of multinationals in developing countries. In recent years more than half the expansion of multinational employment has taken place in developing economies: 5 million of the 8 million jobs created by multinationals between 1985 and 1992 were in low- and middle-income countries. Even so, industrial country fears of decapitalization do not seem well grounded. In 1990 cumulative net flows to developing and transition economies amounted to just 2 percent of industrial countries' capital stock. Although net flows to developing and transition economies are expected to rise further, the cumulative net flow over the next decade will still represent only about 2.5 percent of industrial country savings (World Bank 1995a).

Concerns that higher foreign direct investment flows to developing and transition economies will entail large-scale exports of jobs from industrial countries also appear largely unwarranted. A recent report by the United Nations Conference on Trade and Development suggests that the proportion of foreign direct investment that relocates jobs from industrial to developing and transition economies is small overall, although substantial in a few industries such as textiles and electronics (World Bank 1995a).

There are some concerns that strong demand for capital from both developing and industrial countries will combine with falling private savings rates to create a "capital shortage," putting strong upward pressure on world interest rates. Most analyses suggest that such an outcome is unlikely, provided that industrial countries keep their fiscal deficits under control. Sustained high deficits in industrial countries could undermine this positive outlook by sucking in world savings, raising interest rates, and sharply curtailing flows to developing and transition economies.

Most industrial workers gain from integration

Because of the OECD's employment problems, much of the debate on rising integration has focused on the costs, and relatively little of it on the gains. This has tilted the discussion toward protectionist sentiments and away from the core issue of how to maximize and distribute the mutual benefits of integration. Although the adjustment process can involve significant costs to certain groups, there are large gains associated with further integration for workers in industrial countries. These gains are linked to the three main channels of global interactions: expansion of trade, increased financial integration, and international migration.

Expansion of trade brings all workers immediate consumption gains (through lower prices for consumer goods) and enables many to become more productive as the goods they produce increase in value. Industrial country consumers have already reaped large gains from cheaper labor-intensive imports. In the United States, for example, prices of footwear and apparel have fallen by more than 20 percent in real terms over the past decade. Many workers in the OECD will also benefit as industrial countries shift production toward higher-value, higher-wage sectors, increasing average job quality and average wages. By raising incomes in developing and transition economies, expansion of trade can raise the demand for industrial country exports of consumer and capital goods and, where there is unused capacity in the industrial countries, can provide a strong boost to output. Current World Bank estimates (1995a) suggest that a 1 percent increase in developing and transition country growth could increase growth in the industrial countries by 0.2 percent. Growing integration with the developing and transition economies could also dampen cyclical swings in the industrial countries and in the global economy as the distribution of economic activity broadens and diversifies around the world.

All in all, first-round static gains to the industrial countries from increased trade due to the Uruguay Round are estimated at $50 billion in 1992 prices—or a permanent increase of 0.3 percent of GDP (World Bank 1995a). Optimistic assumptions in which industrial countries continue to invest heavily in skill upgrading suggest a second-round, permanent increase in output of about 0.8 percent of industrial country GDP. These second-round gains result from greater investment (in both physical and human capital) and greater savings following the first-round efficiency gains.

There are additional sources of potential gains for the industrial countries: larger international markets may allow firms in industrial countries to exploit economies of scale, and increased competitive pressures could stimulate innovation and higher productivity growth. These gains are much more uncertain, however. Were they to materialize, they could translate into permanent increases in the growth of output in the industrial countries.

Like the expansion of trade, increases in flows of private capital between industrial countries and the developing and post-centrally planned economies can benefit both investors and

recipients. Equipping an increasingly skilled work force in developing and transition economies with better capital will help boost productivity and wages. For savers in industrial countries, investment in the developing and transition economies offers higher returns and scope for gains from portfolio diversification—especially important for industrial countries facing an aging population and a growing number of pensioners. The rising importance of private capital flows, especially financial flows, however, increases the risks of instability in world financial markets—witness the turmoil created by the recent Mexican crisis.

As do other forms of exchange, migration offers possibilities for mutual benefit. Most workers in both home and host countries gain from migration flows: migrants are more productive in the host country, boosting world output and increasing their own wages; they send remittances to those at home, who thus also benefit; and they can reduce labor costs in the receiving country, generating direct gains to employers and to native workers with skills that complement those of the migrants. But migrants can potentially hurt native workers with skills similar to their own. For example, if the demand for labor that they generate indirectly—through their demand for goods and services—is less than their own labor supply, that would put downward pressure on the wages of similar workers. Recent studies suggest that the pressures introduced by migrants on the unskilled segment of the labor market in the United States and Europe are comparable to those created by trade with developing countries. The effects of migration are also potentially more far-reaching than those of trade because migrants often enter the nontradable sectors. As with trade, however, the relevant questions are how to distribute the many gains that result from this form of international interaction and how to help the few who get hurt.

CHAPTER 2

Industrial Country Policies for Workers in Rich and Poor Countries

Solving the employment problem in industrial countries requires both achieving sustained economic growth and implementing a set of structural reforms and targeted measures to address the distributional aspects of the current malaise. International interactions are a source of rising pressure on unskilled employment and wages in industrial countries. But they are also an important source of global growth and hence part of the solution to the employment crisis. Relieving the pressures on the unskilled by restricting international interactions risks choking off this source of growth for both the industrial countries and the developing and transition economies. A more coherent strategy is to deepen, not reduce, international integration, while taking domestic action to allow workers, especially the unskilled, to participate in the gains.

Deepening integration through regional agreements

Capital will continue to flow from rich to poor countries, and migrants from poor to rich nations. But the gains from integration that can be realized through these two channels are limited. Capital flows are bound by considerations of creditworthiness and by the rising importance of geographical proximity and nonlabor cost factors in determining productivity. Flows of workers are constrained by borders and other forms of control that will not disappear. Hence the key to achieving deeper integration is trade expansion. The Uruguay Round was an important step in that direction, making progress toward facilitating the exchange of goods between rich and poor countries. But the Round was probably more important for what it was able to prevent (in rising protectionist sentiments) than in the actual gains it brought. High-income countries continue to maintain high protection in certain goods, most evident in agriculture and in the lengthy phaseout of the Multifiber Arrangement, while contingent protection remains an important worry.

Multilateral and unconditional liberalization of trade should remain a first-best policy objective. But, as underscored by the North American Free Trade Agreement (NAFTA), there is also scope for further integration between richer and poorer countries through regional agreements. Contrary to some views, NAFTA almost certainly diminished the magnitude of the recent Mexican crisis by reducing the probability of a reversal of reform and by facilitating the mobilization of resources by the United States. Locking in to external markets through a trade agreement is a powerful commitment mechanism, which can strengthen the credibility of domestic reforms. The potential for NAFTA-like agreements in other regions of the world is large, especially as it concerns Europe and the regions to its east and south. There are already significant openings: discussions of new trade agreements with Israel, Morocco, and Tunisia; of Turkey's Customs Union with the European Union; and of special treatment within the European Union for Eastern and Central Europe. And there are strong arguments on both sides to push for an opening of European markets. For Europe, market opening would support the development of strategically important regions (Eastern and Central Europe and the Mediterranean) and recipients of significant transfers (Sub-Saharan Africa). For developing and transition economies it provides an opportunity to integrate into international markets and commit to a program of domestic reform, with less risk of contingent protection.

Regional agreements do pose some dangers: too close a focus on regional trade could risk generating significant trade diversion. This risk is lower for free trade areas that do not impose restrictions on members' external trade policies than it is for customs unions, and it is reduced when the possibility of increasing external barriers is constrained by multilateral disciplines under the World Trade Organization. If structured around principles of openness, regional agreements can be a useful step toward a multilateral opening of markets. They may allow for deeper integration than multilateral accords because negotiations are simpler and countries are more likely to share common interests. And they may facilitate a gradual adjustment into export production in the transitional period leading up to full multilateral liberalization under the General Agreement on Tariffs and

Trade. This can be crucial to the political economy of trade reform: as more workers shift into production of exports, the number of people who gain from trade liberalization increases, reinforcing support for further reform. For regional agreements to work, however, they have to be conditional on effective domestic reform, since integration heightens the need for sound domestic policy. They should also be conditional on rapid movement toward nondiscriminatory trade.

What to do about labor standards

Even before the Uruguay Round agreements were signed, the issue of labor standards had attracted considerable attention. Some industrial countries argued—unsuccessfully—for linking certain labor standards to the Uruguay Round agreements, but this proposal will be examined in the next round of multilateral negotiations. Agreement on standards (on the environment as well as labor) proved necessary to get the U.S. Congress to ratify NAFTA. The case for links between standards and trade is presented in terms of moral principle, prevention of unfair competition, and avoidance of a downward spiral in which countries are forced to adopt the lowest standards among competitors.

The real danger of using trade sanctions as an instrument for promoting basic rights is that the trade-standards link will be hijacked by protectionist interests attempting to preserve activities rendered uncompetitive by cheaper imports. As the history of antidumping shows, discretionary trade protection is highly susceptible to misuse. Moreover, the efficacy of trade sanctions in enforcing labor standards is far from proven, especially if sanctions are imposed selectively. There is a risk that they would be applied only to small countries and that big-country violators would not be affected. To the extent that higher standards lead to higher labor costs, they threaten to hit developing and transition economies precisely in products where their comparative advantage is greatest. Low-cost unskilled labor is the main comparative advantage of poor countries. Such differences in endowments are the very basis of international trade and are not a source of general declines in employment in richer countries—even though they may contribute to changes in employment structure and contraction of employment in specific areas. Where jobs are lost there is a case for public action, but trade protection is likely to be a blunt instrument, taxing others in the society and delaying the structural change that will be the foundation of future growth and jobs.

Does this mean that groups in industrial countries should remain silent on labor conditions in poorer countries? By no means. Labor conditions, like poverty reduction and overall development, are legitimate areas for international concern. But such concerns should be weighed against the economic costs involved. For developing and transition economies, it is important to develop a strategy of actively setting standards that make sense for each country's development level and of devising mechanisms for their implementation. Progress in this regard would help separate those in rich countries motivated by moral concerns from the protectionists. Industrial country efforts to improve working conditions in developing and transition economies could then focus on generating more capital flows and development assistance.

Reforms to allow industrial country workers to benefit from integration

The key to solving the employment crisis in industrial countries lies in domestic policy. Deepening integration will help secure growth and thus contribute decisively to a solution. But the distributional consequences of integration should not be ignored, especially since persistent labor problems may slow the process or even force countries to backtrack to a more protectionist environment. The OECD, the EU Secretariat, and many other organizations and individuals have addressed domestic reform issues extensively. The main conclusions of these diagnoses are presented here and relate to *World Development Report 1995*'s analysis of labor market issues in the developing, transition, and post–centrally planned economies.

Global integration, by affecting international prices, can have important distributional consequences within and between countries. Globalization affects the relative demand for various types of goods and consequently shifts relative demand for different factors and skills. In the long run, when resources have been adequately reallocated across sectors, trade with developing and transition economies can be expected to have an overall positive effect on aggregate employment and wages in industrial countries. But the adjustment process can be painful—especially for groups displaced by changing trade patterns. In industrial countries, the most vulnerable groups are young, low-skilled workers in manufacturing.

The challenge for industrial economies is to facilitate the movement of labor from declining to expanding activities and to manage the transition with minimal social costs. A first step is ensuring that both labor and product markets are open and competitive. Increasing competition in protected sectors such as services and transport can spur growth in labor demand. Reforming institutions that favor insiders at the expense of outsiders—as with job security provisions that differ for different groups—will contribute to more equitable employment outcomes and a more even distribution of the benefits of growth, while measures aimed at increasing the flexibility of working arrangements can have similar beneficial effects. Well-designed programs to help workers switch jobs—such as placement services or job-search assistance—also can play a positive role. Relatively inexpensive job-search assistance, for example, has proved effective in helping displaced U.S. workers find new employment.

More flexible markets, however, will reduce significantly unemployment only under conditions of sustained growth. This calls for an appropriate macroeconomic policy mix and for supporting efforts toward further integration.

Sustaining the real wages of those with few skills in the face of increased competition from low-wage countries will require continued investments in education and the acquisition of skills. In the United States, a private supply response to the shift in demand toward higher skills is already under way, as reflected in the recent rise in enrollments of adults in community colleges. But it is unclear whether this will be sufficient to reverse the trends toward rising inequality, even though it may slow or freeze them. Further efforts to extend and upgrade workers' skills may be needed, especially in increasing the quality of education and improving school-to-work transitions.

CHAPTER 3

Conclusion

The growing integration of goods and capital markets has linked the labor markets of industrial, developing, and transition economies as never before. This has fueled fears that manufacturing jobs will be siphoned off to developing and transition economies at the expense of unskilled employment and wages in industrial countries. International interactions, however, explain only a small part of the plight of unskilled industrial workers facing the threat of unemployment or declining wages. Moreover, gains from further integration are likely to outweigh the costs for the industrial countries. Deepening integration with developing and transition economies can provide an important source of growth for the industrial world. But such a deepening must be coupled with structural reforms and measures aimed at ensuring that all industrial country workers share in the gains. Policies aimed at easing the cost of adjustment for those who are most vulnerable—young workers and the unskilled—are crucial in dealing with the distributional impact of globalization and in curbing protectionist pressures.

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