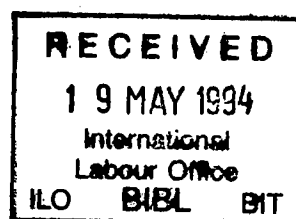


Workers, institutions and economic growth in Asia

Edited by Gerry Rodgers



International Institute for Labour Studies Geneva

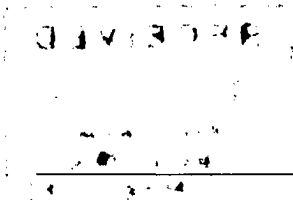
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Preface

The academic discussion on labour policy issues — whether those of industrial relations, labour market structures, or conditions of work — often takes place independently of discussions on macroeconomic policies or development strategies. Labour policies are considered either in normative or regulatory terms, or as exogenous features of the economic landscape. The way in which labour institutions influence economic outcomes is more the subject of polemical, rather than academic, debate. However, the present environment of economic liberalization, structural adjustment and growth calls for a new emphasis on the causal relationships between labour institutions and economic outcomes. An understanding of these relationships is of obvious importance for the design of appropriate policies and legislation.

The need for a deeper conceptual understanding to inform policy-making has prompted the International Institute for Labour Studies to initiate a research programme on the relationships between labour institutions and economic development. Key economic variables like savings, investment, productivity and income distribution are powerfully influenced by the structure and performance of labour institutions. Equally, labour institutions themselves are shaped by the course of economic development. Both labour institutions and the pattern of economic growth may well be influenced by common factors. The relationships are interactive, and touch on the fundamental question of the relative importance of power structures, social factors and market forces in the shaping of labour institutions and growth paths. A central issue is the role of the State, both in terms of its interventions in the labour market and its legislative action.

To promote an exploration of these issues, the International Institute for Labour Studies has initiated a comparative review of institutional and developmental patterns in Asia. A first publication examined India's experience.¹ It showed that the richness and complexity of the relationships involved cast doubt on the value of simplistic formulae in addressing such

¹ T. S. Papola and Gerry Rodgers (eds.): *Labour institutions and economic development in India*. Research Series 97. Geneva, International Institute for Labour Studies.

questions as minimum wages, exit policies, labour protection and unemployment. This volume explores the experience of East and South-East Asia in the context of the theoretical and methodological issues involved. In the East Asian NICs, market forces appear to be less constrained, and economic systems appear less regulated than elsewhere. But a closer examination also highlights the importance of many institutions which have promoted or, at times, impeded growth, and which have directly affected distributive patterns. These interactions need to be understood to arrive at a balanced assessment of the East Asian experience.

The chapters of this monograph are revised versions of papers first presented to an international workshop on *Labour institutions and economic development in Asia: Theoretical approaches and empirical evidence*, organized by the International Institute for Labour Studies and the Demographic Institute, University of Indonesia, Jakarta in Sanur, Bali, Indonesia, from February 4 to 6, 1992. We are grateful to Dr. M. Djuhari Wirakartakusumah, Director of the Demographic Institute, and his colleagues for their generous collaboration, and to participants in the workshop for their stimulating comments.

Padmanabha Gopinath

Director, International Institute for Labour Studies

Geneva, March 1994

Foreword

The success of some countries in East and Southeast Asia in maintaining rapid economic growth over long periods is striking. Behind this success lie high levels of investment and remarkable export performance. But economic factors are only part of the story, and not all countries in the region have done so well. In trying to understand these patterns, economists are paying increasing attention to the social institutions which promote or impede economic activity. Among these, labour institutions, such as wage systems, trade unions or labour market segmentation, are at the heart of both production and distribution. Such institutions may directly affect the overall level of growth, but they also determine the way the benefits of success and the burdens of failure are shared — and this in turn has implications for whether growth is sustainable and whether it contributes to social as well as to economic goals. But there are divergent, indeed totally contradictory views on the virtues of particular institutions, and little agreement on whether, say, minimum wage legislation or constraints on hiring and firing improve or degrade the pattern of growth. In short, although it is widely accepted that labour institutions are important, their role in economic success or failure is highly controversial.

There are many ways in which these issues may be addressed, and it is not obvious which is most fruitful. The analysis of institutions is complex and often confusing — it is difficult to separate out from the wide range of social, economic, cultural and political institutions those which are most significant for economic development. Recent advances in institutional economics suggest some leads, but both concepts and methods are disputed. This book therefore starts with three papers which look into the theoretical and practical aspects of analysing the relations between labour institutions and development. The first chapter is a review and assessment of the current literature which links institutional, labour and development concerns. It makes the case why labour institutions are important, summarizes the approaches of different schools which have analysed their sources and their effects, and tries to pick out some of the main research issues which need to be pursued if we are to understand how institutions affect both growth and the distribution of the benefits from growth.

The second and third chapters look at labour institutions from the perspectives of two quite different schools of thought. Chapter 2, by Robert Boyer, reflects the thinking of the *Régulation* School, which explores how sets of institutions form and support a particular growth path. In this, the “wage labour nexus”, the set of economic and social relations surrounding the hiring and remuneration of labour, is a central part of the story. The history of economic and institutional change in presently industrialized countries illustrates both how particular institutions determined the pattern of development, but also how the process of development in turn generates institutional change. These ideas are then applied to Latin American and Asian economies, in order to identify what alternative types of institutional frameworks might emerge and how they affect the growth process. Chapter 3, by Gary Fields, starts from basic economic principles of supply and demand in the labour market, and explores the analytical consequences of gradually introducing more realism and more institutional elements into the analysis. This micro-level approach considers both the institutions which emerge from labour market mechanisms, such as those concerned with enforcing contracts or dealing with imperfect information, and those institutions which affect labour market outcomes by constraining its operation, such as discrimination or minimum wage setting. These two approaches illustrate how diverse the approach to institutions may be, and how different the conclusions. For Fields, many (but not all) of the institutions he considers take the labour market away from equilibrium and have adverse effects on efficiency and growth. For Boyer, the institutions are themselves part of the process by which growth and development occurs. For Fields, the issue is one of attempting to derive from a well-defined general theory testable hypotheses about specific institutions. The macro-relationships are built upon micro-foundations. For Boyer, what is important is the broad synthesis, even if this can only be loosely verified. The micro and the macro interact, so that micro-level relationships only acquire significance in a macro-level setting.

The remaining chapters look at these issues in several East Asian countries. Chapters 4 and 5 both deal with the Republic of Korea, and both consider the pattern of labour institutions and their interaction with Korea’s rapid development over the last three decades. But the theoretical perspective of the two papers is quite different. On the whole, Young-bum Park, in chapter 4, adopts the intellectual framework offered by Fields, in that he explores the extent to which labour market intervention has shifted wage and employment patterns away from a market solution. Labour repression and related institutions were designed to maintain competitiveness in the labour market — in particular, the repression of trade union activity

is seen as preventing the distortion of wages away from market-determined levels. This in turn, was designed to maintain competitiveness in export markets and so promote export-led growth and hence rising living standards. But this is only part of the story, since Park also interprets much labour market intervention as part of a process of overall economic regulation by the State, aimed at stability as much as at efficiency. Jong-il You (chapter 5) goes further. Taking a position closer to Boyer's, he argues that the Korean State was aiming not at "competitive" outcomes in the labour market, but at deliberately manipulating labour market institutions with a view to promoting dynamic efficiency and comparative advantage. This involved the repression or control of institutions which might have induced other outcomes. In this, for instance, rising wages were important as a means of undercutting dissent. But many other labour institutions, less susceptible to state control, are present, including for instance segmentation by sex and the social institutions underlying work norms, which decisively influence the direction and pace of Korean development. He examines some of the potential dynamic effects of particular labour institutions, which may have been important factors in inducing rapid growth, notably those inducing learning and skill development, and speculates that democratization and the associated institutional changes may induce a change of growth regime.

Chapter 6 on Thailand, by Sungsidh Piriyaarangsarn and Kanchada Poonpanich, and Chapter 7 on the Philippines, by René Ofreneo, are more detailed empirical examinations of the role of labour and labour institutions in the development experience of these two countries. In both countries, there has been a stress on export-oriented industrialization, and this has led to a policy of wage restraint (in contrast with Korea, where wages have risen rapidly, but where the process of industrialization is much further advanced) and attempts to promote institutional frameworks which could limit conflict in industrial relations. In both countries, there have been periods of repression and periods of freer organization of labour, but the development strategy has largely been built around the "political exclusion" of labour. In Thailand, this policy has been associated with rapid economic growth, albeit at the cost of increasing inequality. But in the Philippines, growth has been weak and per capita incomes have risen little since the mid 1970s. In the Philippine case, labour organization and protection, which developed in the postwar period, were undermined by the policies of the 1960s and especially the authoritarian period of the 1970s. Ofreneo argues that the weakening of these institutions demonstrably failed to promote growth in the long term and led to political instability. Sungsidh Piriyaarangsarn and Kanchada Poonpanich argue, in a similar vein,

that strong institutions to provide labour market stability, good working conditions and skill development may be a precondition for continued growth and an equitable sharing of the fruits of development in Thailand.

The four empirical chapters focus mainly on the visible, formal institutions — unions, labour legislation, wage committees and the like, with a particular stress on state intervention. But they also highlight the importance of informal institutions which are less easy to study — those which lead to discrimination against female workers, the growth of subcontracting and casualization, the informal ways in which skills are acquired. These clearly affect the pattern of growth, in the sense that they make it easier for some groups to capture the benefits of growth, while excluding others. They may also affect the rate of growth, although this is less easy to ascertain. In particular, institutions which create large, low skill, low paid segments of the labour force with the objective of generating higher growth in the short term may do so at the cost of long term sustainable development. If this is so, then the relatively egalitarian labour market in Korea, combined with a stress on the development of skills, may have been much more important as an institutional underpinning for development than the process of labour repression, which served essentially political ends.

One powerful conclusion from this volume is that, to use Boyer's phrase, labour institutions matter. The promotion of a free and unfettered labour market is a chimera — but even if it were feasible, there is no reason to believe that it would necessarily promote growth, and even less reason to believe that this growth would be desirable. Institutions of diverse sorts are always present. On the other hand, market forces are powerful and cannot be ignored — it is clear that overregulated labour markets which fail to take account of economic realities are likely to generate equally poor development performance. A complex balancing of economic, social and political forces is involved in any growth path, and the ideal institutional framework is not something that can be identified independently of historical or cultural context. But while the nature of the institutions concerned and their effects vary, social institutions in general, and labour institutions in particular, play a decisive role in economic development.

Gerry Rodgers

International Institute for Labour Studies
Geneva, March 1994

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1 *Institutional economics, development economics and labour economics*

Gerry Rodgers¹

1. *Introduction*

It seems to be quite fashionable for economists to be interested in institutions nowadays. At least, there is a growing interest among economists in the economic effects of institutions (reflected most obviously in the award of Nobel Prizes to Ronald Coase in 1991 and to Douglass North in 1993). And quite a few books on the economics of institutions have been published in recent years.² Sociologists are not impressed, of course. Institutions are and always have been central to sociological theory. But for economists, an interest in institutions has in the past been off the mainstream. One reason may be that it is difficult to reach agreement on what institutions really represent, because there are so many ways and levels at which one can consider them. One definition is that "institutions are the humanly devised constraints that structure political, economic and social interaction" [North, 1991]. "Humanly devised" might seem too purposive for some tastes. Others refer to "rules of a society or of organizations that facilitate co-ordination among people by helping them form expectations which each person can reasonably hold in dealing with others" [Ruttan and Hayami]; or "complexes of norms of behaviour that persist over time, by serving collectively valued purposes" [Uphoff] (both cited in Nabli and Nugent [1989b], p. 7). But there are two quite distinct classes

¹ International Institute for Labour Studies, Geneva. I am grateful for comments, contributions and suggestions to Andres Marinakis and other colleagues at ILS, and to participants in several seminars during 1991 and 1992 where work in this area was discussed. Views expressed here are personal and imply no responsibility on the part of the ILS. An earlier version of this paper was given at the 1992 Meeting of the Pakistan Society of Development Economics, and has also been published in the *Pakistan Development Review*, 31(4), Part 1, Winter 1992.

² For example Eggertsson [1990], North [1990], Nabli and Nugent [1989b], Bardhan [1989].

of institution, or two distinct meanings given to the word [van Arkadie, 1989]: the first is in the sense of organizations; the second refers to persistent rules, norms and constraints governing behaviour. These rules may be formal and written, or they may be informal and implicit. Both organizations and rules are relevant, since both form part of the set of social relationships underlying any set of economic relationships; moreover they interact, in that there will be a set of rules which govern the behaviour of social organizations.

An example of the importance for economic processes of both formal and informal institutions lies in the rules governing the ownership, use and exchange of property. There is a formal (legislative) component — in this case the rights to property, and the boundaries to those rights (e.g. ceilings on land ownership, conditions under which the State may purchase compulsorily, restrictions on foreign ownership), and an informal component (usage, social convention, and the contribution of property to status and hierarchy). Both elements will place constraints or conditions on the use and exchange of property, and they may of course be in conflict. For instance, there may well be formal restrictions on the renting out of land or housing, but these formal conditions may be overridden or modified by the power of usage, or by the direct use of force by property owners. The rules may operate generally throughout society, and be internalized (only marginal groups reject the rules), or they may require coercion or sanction.

Most economists recognize that their discipline is surrounded by conventions, values, norms, laws, organizations, agreements and the like. But the majority of mainstream economists have been happy to ignore these messy, social phenomena, and consider that one can fruitfully analyze economic behaviour holding institutions constant. Institutional explanations are regarded as “soft”, as descriptions with little predictive value. Often they are merely used to explain, with hindsight, the difference between the predictions of the researcher’s model and what he or she observes in the real world (and so institutions become rigidities and imperfections, preventing the world from functioning as it should).

If economists are changing their views about institutions, it is surely because of a growing recognition that the failure of mainstream neoclassical economics to adequately treat institutional factors is a major cause of its sterility. Not long ago, Wassily Leontief looked at several years’ worth of articles published in the *American Economic Review*, and found that two thirds of them contained no data, a quite extraordinary

situation.³ In practice, the high status work of the profession has been centred around the mathematical representation of mechanisms based on efficient exchange between rational, utility maximizing individuals, with only a secondary interest in whether this has much to do with the real world. There is an increasing credibility gap between this literature and problems of unemployment and poverty, of economic dynamism and entrepreneurship, of motivation and participation.

There has always been a fringe of economists concerned with institutions, recognizing that it is difficult to explain differences in economic performance in purely economic terms. They have remained on the fringes mainly because of a perception that institutional theory was weak and certainly inelegant, so that much of this work was basically descriptive, and difficult to generalize. Does the recent resurgence of interest in institutions mean that this concern is at last moving to centre stage?

II. A brief history of institutional economics

Various schools of institutionalist economists have attacked these issues from one angle or another. One school emerged in the United States at the beginning of this century, its principal contributors being Veblen, Ayres and Commons. Their theories were characterized by a holistic approach to economics, relating the nature of the economic system to the nature of human behaviour. Veblen explained the process of social change as the result of the conflict between new forms of production and social institutions representing the existing power relationship. Similar ideas were developed by Ayres who, reviewing the history of western civilization, pointed out the importance of the strength or weakness of the existing institutions in blocking or promoting technological progress. Contrary to the established economists who described the economy as tending toward an ideal "stationary state" (following J. S. Mill), Veblen introduced the idea of an evolutionary economic process without a predetermined result. Commons shared this evolutionary vision, but his major contribution was in the domain of social legislation, as he saw the legal system as the institution which could canalize conflicting social interests [Street, 1987].

Another school developed around the institutions of the labour market in the early post-war period. The "Post-Institutionalist School", including

³ See Morgan [1988], who notes that this makes economics unique among the natural and social sciences!

Dunlop, Ross and Myers among others, was closer to market analysis but paid considerable attention to the growth of unionization and of collective bargaining. Their approach was influenced by the experience of unemployment in the 1930s, which showed that labour markets did not necessarily clear even when wages adjusted, and so demonstrated the limits of liberal economic theories. These authors provided the first analytic treatment of unions as economic institutions, playing an important role in the wage determination process. Their model assumed that workers act rationally but under imperfect information. The resulting behaviour, combined with relatively low labour mobility, explained the persistence of wage differentials in similar jobs [Segal, 1986; Gazier, 1991]. Like their predecessors, they had a strong empirical orientation, a historical approach, and a belief in indeterminacy which left room for the influence of discretion, power and social norms in the labour market [Jacoby, 1990].

Theories of dualism and of labour market segmentation shifted the emphasis towards enterprise strategy. While both mainstream and radical versions of segmentation theory can be identified, many authors in the US literature at least stressed institutional arrangements within firms, and in particular the development of internal labour markets insulated from competitive pressures, providing security and job progression in return for an internalization by workers of firm objectives [Doeringer and Piore, 1971; Osterman, 1984; Rosenberg, 1989]. At the same time, irregular, poorly paid and unskilled jobs continued to exist on a competitive market alongside protected forms of employment. While such structures could be explained as the result of rational behaviour by firms aimed at overall efficiency or cost minimization, the institutional forms which developed varied, and appeared to reflect social forces as much as economic ones.

The growth of development economics in the 1950s and 1960s provided fertile ground for institutionalists. The classic development literature — Arthur Lewis or Gunnar Myrdal, for instance — is rich in institutional detail. Development was seen as a process of institutional change, as “traditional” institutions were supplanted by modern, each with their own complement of economic and social mechanisms. The co-existence of differing systems of economic and social organization, each with its own rules for the creation and distribution of value, gave rise to models of dualistic development long before they appeared in the industrialized country literature. The diversity of systems of social organization highlighted that which was obvious to the anthropologist, that exchange could occur within a variety of alternative institutional frameworks. The question was which system was likely to provide incentives for economic development, and a considerable literature developed, much of it sceptical about the appropriateness of

Western models of property and of market exchange. This literature has become less influential in the 1980s, perhaps because of the economic failures of many alternative development models, and the identity of development economics within the broader discipline has become less distinct. Nevertheless, a concern with the dynamics of institutions continues to mark work in this field.

The recent resurgence of interest in institutions has come not from practitioners of development economics, but from two schools which have emerged from mainstream neo-classical and post-Marxian economics.

Many practitioners of mainstream economics have become dissatisfied with the poor treatment of economic institutions, but believe that the primary mechanisms of neo-classical economics (essentially rational, utility maximizing behaviour) could explain the development of particular institutional frameworks. The result has been the development of the "new institutional economics" (NIE) or "neoinstitutionalist" school.⁴ This school is generally taken to originate with Ronald Coase's classic [1960] article on "The problem of social cost". Coase was concerned to demonstrate the importance of transactions costs in economic exchange. Transactions costs include the costs of information and of enforcement of contracts. If information is perfect and all exchange is free of cost, under the assumptions of neo-classical economics economic systems will move rapidly to optimal equilibrium. But as soon as knowledge is incomplete and asymmetrical, agreements have to be arranged, monitored and enforced. To enter into agreements, agents have to have rights over economic resources, and these rights also have to be agreed and enforced. These mechanisms give rise to a range of formal and informal institutions. It is important to realize that while alternative institutional arrangements are possible, no economic exchange is institution-free; as a result, one should not compare outcomes under particular institutional conditions with the theoretical cost-free equilibrium (the Nirvana fallacy), but only with alternative institutional conditions. The primary logic of neoinstitutionalist economics is that there will be a tendency for more efficient institutions, in the sense of institutions which reduce transactions costs, to drive out less efficient institutions, through the effects of competition — economic agents will seek new contractual forms which reduce transactions costs.

⁴ Eggertsson [1990] distinguishes between "neoinstitutionalist" economics, based on utility maximization, and the "new institutional economics" which may incorporate non-maximizing behavioural assumptions such as satisficing. In practice, however, both schools are concerned with similar issues and I refer to them both under the neoinstitutionalist heading.

This basic idea gives rise to a rich set of theoretical propositions. In particular, it suggests a variety of ways in which institutions may interact with economic development. In societies where transactions take place at a personal level, the possibilities for cheating are limited so transactions costs are low, but production costs are high because of the small scale of operations. In contrast, under impersonal exchange production costs are reduced as a result of specialization, but transactions costs may be substantial [North, 1989]. In order to reduce such costs, third party enforcement becomes important, and this is used as a starting point for a theory of the State [Eggertsson, 1990]. Institutions which constrain participants to a determined pattern of behaviour may reduce transactions and information costs, as the need to seek information and monitor one's counterpart's behaviour is substantially reduced. This is true, for instance, of property rights, and of legal restrictions on contracts. But it is equally true of norms, values, ideology and custom which may generate solidarity, trust and co-operation. Thus the informal institutions may be as important as the formal [North, 1990]. These relationships are seen as fundamental in development: "Third world countries are poor because the institutional constraints define a set of payoffs to political/economic activity that do not encourage productive activity" [North, 1990, p. 110].

An important strand of this literature is concerned with collective action. The fundamental problem is the "free rider": individuals who gain from group action whether or not they participate in the costs of the action. This may refer both to the provision of and access to public goods, and to joint organization in pursuit of a common goal (e.g. higher wages). It is also important in the definition and application of non-exclusive property rights. This is in the end another aspect of the problem of ensuring co-operation, and so of monitoring agreements, hence its relationship to the rest of the neoinstitutionalist literature. Again, the interaction with the theory of the State is important, since a third party may be required to control free riding. Game theory, bandwagon models and public choice theory have all been applied to such situations.

Several points can be made about this school of institutional economics, which is giving rise to a substantial research programme. Firstly, the neoinstitutionalist school has been concerned with *explaining* the determinants of institutions and their evolution over time, in terms of economic factors; secondly, in contrast to the earlier Institutional school, the new institutional economics, although critical of mainstream neo-classical economics, attempts to complement rather than replace it. "The NIE attempts to modify or broaden the mainstream toolkit and then to use this broadened analytical framework to explain phenomena that had previously seemed

impenetrable" [Nabli and Nugent, 1989b, p. 10]; thirdly, despite the interest in collective action and the theory of the State, this is clearly a development of microeconomics, based upon the behaviour of individual economic agents; fourthly, like mainstream neo-classical microeconomics, it has no theory of distribution, and no real interest in distributional questions. This latter is a rather dangerous weakness, for the efficiency of institutions is measured in terms of conventional costs and values, which, as Eggertsson points out, are themselves dependent on the distribution of income in the economy. What is more, institutions are seen as responding to the actions of interest groups, and the success of these groups in modifying institutions reflects the prevailing pattern of economic and social power. The pattern of institutional change is therefore likely to be such as to reinforce the positions of those in power. In view of the likelihood of path dependence [North, 1990] in economic development patterns, expectations of a tendency for more efficient institutions to drive out less efficient seem optimistic if this is inconsistent with the interests of those in power.⁵

A quite different institutionalist vision of development is represented by the *Régulation* school, which also considers the interplay of multiple institutions in regulating the economic system. Here institutions are not only concerned with efficiency but also with control. Growth paths are necessarily based on particular forms of social control, notably in terms of the incorporation of labour in production, and on particular patterns of accumulation, which again requires a framework for social action and co-ordination. Glyn et al [1990], in their analysis of growth in industrialized countries, identify four dimensions to this framework: the macro-economic structure; the system of production, notably the wage relation and the mechanism for control of work practices; the rules of co-ordination, including the social and economic policies of the State and the legislative framework; and the international order, including dominance in international markets and the role of international capital. This is institutionalist in the Veblen sense, in that development is open-ended; at any point of time, alternative sets of institutions can be envisaged, which may stabilize economic systems at different levels of economic activity, with different growth rates and with different patterns of distribution; see for instance typologies developed by Boyer [1986, 1989; also his chapter in this volume].⁶ There is a strong historical strand in this approach - institutional frameworks and

⁵ North now seems to believe that this tendency occurs through competition between societies at the global level — e.g. Latin America versus the United States.

⁶ See also the special issue of *Economie et société*, No. 11, 1989, devoted to *régulation* theory.

their effects need to be studied in historical context, and outcomes are path-dependent, in the sense that history limits the range of alternative futures. For instance, Dore's comparison of industrial relations systems in Japan, Sri Lanka, Mexico and Senegal [Dore, 1979] shows how the choice of institutions was conditioned by the models which dominated at the international level at the time the systems were crystallizing at the national level.

The *Régulation* school might be classified as macro-institutionalist, and the neoinstitutionalist school as micro-institutionalist, since the starting point of the regulationists is the society and that of the neoinstitutionalists the individual. The difference is fundamental, but in practice it is difficult to maintain a clear distinction in these terms, for the macro-institutional picture depends on micro-level workplace relationships, while the micro-institutionalists require a theory of the State and North at least applies the model to broad historical patterns. Perhaps the crucial institution for both lies rather uncomfortably between the micro and the macro: the market. In a neo-institutionalist perspective, the market can be understood as a device to minimize transactions costs, and the institutional framework of the market — the rules, formal and informal, which govern its operation — are ultimately determined by efficiency in these terms. In a regulationist perspective, the function of the market in distributing power and in controlling economic processes is equally crucial. Bowles [1991] distinguishes several types of markets: those in which the agents are endogenous (i.e. affected by the exchange), such as labour markets, as against the more classic case of exogenous agents; and those in which claim enforcement is endogenous (because the market contract is incomplete — again the labour market is a good example) against those in which the contract is complete and uncontested. In both cases, market outcomes depend on the distribution of power, but when market processes “shape the capacities, values and desires of the exchanging parties”, as they do when agents or claim enforcement are endogenous, and when they influence the definition and distribution of property rights, they modify the rules of the game in ways which need a macro-social framework for their analysis. Efficiency in a neoinstitutionalist sense will not do because the very meaning of efficiency depends on the way the market operates within society.

Despite their differences, these alternative approaches have some elements in common. Probably the most significant is the recognition of the need for a historical view - the evolution of institutions depends on historical circumstance. Partly a result, there is a common acceptance that progress is likely to be achieved by iterating between theory and evidence, between observation and verification. There is as yet no acceptable overall

body of theory, and it is important to build up such a body in iteration with empirical observation.

III. Labour institutions

The way labour is used and remunerated is a crucial aspect of institutional economics, and institutions of many sorts are correspondingly important in the labour market. The purchase of labour time is usually part of a much more complex system of relationships, involving not just the payment of a wage in return for a number of hours worked, but also levels of commitment and motivation, work intensity, a continuing relation over time (since most work occurs in continuing jobs), control over the pace and content of work, a working environment, a social position, an income level and a set of consumption standards, etc. These relationships depend on a set of what may be called *labour institutions*, i.e. the social institutions which affect or derive from the incorporation of labour in production, the remuneration and working conditions of labour, and associated social and income guarantees. Labour institutions are those which affect the structure and functioning of the labour market, from within or without, which determine who supplies what sort of labour where, who has access to what sort of employment and income opportunities, what sorts of jobs are on offer and the conditions under which they are carried out, and how labour is represented and organized.

These labour institutions can be conveniently visualized in five categories: organizations, formal labour market institutions, informal labour market institutions, underlying formal social rules, and underlying informal social rules.

1. Organizations

Examples: Trade unions and other organizations of labour, likewise of employers; firms, training organizations, state enforcement systems (e.g. labour inspectorates) and other state bodies, tribunals.

2. Formal labour market institutions

Examples: Employment contracts as they define the nature of jobs, the conditions under which jobs are performed and the rights and obligations attached to them;

The formal mechanisms for controlling these contracts, including labour legislation, bargaining procedures, wage fixing rules;

Rules for job access (e.g. educational qualifications);

The hierarchy of jobs within firms (this might also be informal).

3. *Informal labour market institutions*

Examples: Aspects of employment contracts based upon social deference or control, procedures and patterns of behaviour in the workplace;

Informal mechanisms controlling access to jobs and income opportunities, discrimination against women, the methods of transmission of skills and their recognition by employers;

Indirect forms of control over self-employment (sharecroppers, sub-contractors, homeworkers).

4. *Underlying formal social rules*

Examples: Property rights and the rules for the ownership and operation of firms;

State-defined rights of individuals to income, to public goods, to subsistence;

Rights of expression, of political activity;

The recognition of authority.

5. *Underlying informal social rules*

Examples: Values and norms, culture and ideology, as they affect roles and perceptions of particular social groups in the labour market (women; ethnic groups), affect the "work ethic" and the social valuation of leisure, affect perceived needs for consumption;

Kinship and community systems (particularly as they affect patterns of sharing of obligations and benefits).

These different types of labour institution — a more systematic list is given in an annex — interact with economic processes in different ways and at different levels. Several points should be made. First, the concept is broad; but this is essential, for we may not be able to understand the operation of formal labour market institutions if we do not understand the underlying informal social rules. Formal and informal institutions may co-exist and either complement or compete with each other. Assaad's [1991] investigation of formal and informal institutions in the Egyptian labour market reveals written employment contracts alongside casual labour relationships, formal training alongside traditional apprenticeship, and trade unions alongside coffee houses; in each case the informal institution was in practice more important. Including the underlying social rules is equally

important; these are the means by which patterns of behaviour are internalized, hierarchical relationships legitimized, social divisions of labour determined — all crucial if the labour market institutions and organizations are to function effectively.

Second, these institutions do not vary independently of each other. Various combinations and sets of institutions emerge, underpinning particular economic structures or particular patterns of development. Thus the “Fordist” model of development in industrialized countries can be described as a combination of elements from each of the different categories of institution (involving particular types of employment contract, particular ways of regulating them, particular forms of social guarantee and of training, particular consumption norms, etc.) and not just in terms of the characteristics of the production line. “Modern” sector production in many developing countries is co-ordinated by a similar set of interlinked institutions. Various forms of corporatism likewise involve particular combinations of state regulation, worker organizations, negotiations over employment contracts and social guarantees. So it may not be very fruitful to analyse individual institutions without first exploring their interdependence.

Third, labour institutions vary in strength or nature across different parts of the production system and of the labour force, and this is a critical determinant of labour market segmentation or other forms of inequality. The resulting structures (e.g. a particular stratification of the labour market in terms of contractual status) may themselves in turn be regarded as derived labour institutions. Segmentation may also make it possible to cheapen labour overall, by rewarding and co-opting those with market or political power, but discouraging solidarity between this group and the mass of workers. The point is particularly obvious in many developing countries, where forms of regulation and the associated institutions vary greatly from one part of the economy to another. State regulation of labour conditions and institutionalized labour relations may apply to only a fraction of jobs [Portes, 1990]; labour markets may be fragmented, with very different sets of institutions governing jobs of different types [Harriss, Kannan and Rodgers, 1990].

Fourth, the analysis of labour market phenomena may require investigation at several different institutional levels. Take for example the role of training and educational systems. At one level these are *organizations* — schools, or the school system as a whole, or training bodies — which, because they directly affect employment and labour productivity, belong as such in the list of labour institutions. At a second level, the qualifications which educational systems provide (or at least the interpretation of those qualifications) are important *formal labour market institutions*,

because they determine who has access to what sort of job according to well defined and often written rules. As the average educational level of the population rises, the educational qualification required for entry to each job also rises, a form of rationing linked to the ways jobs are hierarchized.⁷ Because education also affects attitudes and perceptions, it modifies the structure of labour supply through other institutional mechanisms as well (e.g. the widespread tendency for high levels of female education to be associated with high levels of female labour force participation). So education plays a role through its effects on the *underlying informal social rules* as well.

IV. Labour institutions and development economics

The traditional analysis of economic development is primarily concerned with the macro-economics of output growth. The centre of interest lies in increasing production, and the main determinants are factors such as physical investment, technological level and change, labour and its qualifications, natural resources, the costs of factors of production and the efficiency with which they are combined, aggregate savings and the growth of effective demand. A variety of models depict the interaction of these basic variables. But the contribution of such models to explaining differences in development performance between countries remains unsatisfactory. Large differences in productivity levels, in capital-output ratios and in rates of technical change between countries are difficult to explain in conventional macro-economic terms. "The disparity in the performance of economies and the persistence of disparate economies through time have not been satisfactorily explained by development economists, despite forty years of immense effort. The simple fact is that the theory employed is not up to the task" [North, 1990, p. 11].

At least part of the answer lies in conceptualizing development as a process of institutional change, and as noted above there has traditionally been a school of development economists which favours institutional approaches. The growth of institutional concerns in mainstream economics seems likely to reinforce this view of development, and the current fashion for a more market-oriented vision of development is therefore unlikely to

⁷ This is quite distinct from the human capital approach to the link between training/education and productivity, which assumes that there is a direct effect of the former on the latter, and so neglects the institutional issue.

survive. But the ways in which development economics will change to accommodate new approaches to institutions is not yet clear.

1. *Aggregate patterns of growth and development*

The approach of the *régulation* school suggests that to link labour institutions to patterns of growth and distribution requires an analysis of how each institutional mechanism, or the system of institutions as a whole, interacts with the macro-economic structure. What sorts of patterns of distribution between labour and capital arise at the aggregate level, or between different groups of workers? How does this in turn generate particular patterns of demand, for what types of goods? In which sectors does investment occur as a result? What sorts of systems of industrial organization are implied? What are the implications for profits, for savings, for accumulation? The idea underlying this approach is that the components of the institutional structure are interdependent; their interpretation requires an assessment of the whole as well as of the parts. If this is to be done in a comparative perspective, it would be desirable to work towards a typology of growth patterns and labour institutions, investigating regularities and sets of relationships which recur in different environments. This involves classifying countries or production systems in terms of major macro-economic variables — production, wage and profit shares, economic structure — as well as in terms of the dominant labour institutions, and no doubt bringing in other major social and political institutions too. The work of Boyer [1989, for instance, and in the next chapter of this volume] for Europe suggests how one can distill a manageable typology from a mass of detailed institutional information. Banuri [1990] suggests a classification of labour institutions as decentralized (E. and S.-E. Asia), pluralist (S. Asia, US), polarized (Latin America, Philippines, UK) and social corporatist (Scandinavia), implying that each is associated with particular political arrangements and development patterns. Typologies need not be confined to countries; they might be based on comparisons between regions (Calcutta against Bombay, Northeast against Southeast Brazil), between agrarian systems, or between time periods. Societies may show a range of alternative clusters of institutions, dominating in different parts of the economy or among different groups of the population.

The endogeneity of institutions is crucial. Economic and institutional factors interact, and they both change in consequence. An important aspect of this endogeneity is the inertia of institutions in comparison with economic variables — Banuri refers to this as hysteresis, by analogy with the literature on persistent high unemployment. Part of the reason for inertia,

no doubt, lies in the mutual reinforcement of institutions of different types. North [1991] argues that informal institutions are more resistant to change than formal ones. Nevertheless, institutions clearly do respond to economic forces, as when precarious forms of employment relationship develop in response to competitive pressures, or unionization is influenced by firms' hiring and pay policies, or the internal labour markets of firms depend on their product market position [see also Bowles, 1985], or indeed if the State responds to economic hardship by creating institutions to protect vulnerable labour market groups.

It may not be easy to construct a comprehensive typology of development paths in relation to labour institutions, but such an approach would provide a basis upon which country experiences could be differentiated and a comparative analysis built up. Clearly an historical approach is appropriate; many institutions can be interpreted only in a specific historical and social context, and a broad historical view makes it easier to explore the dynamics. Much could be learnt by studying thresholds and crisis points, periods during which rapid institutional change occurs. A common situation, for instance, is that of an authoritarian regime which promotes rapid, inequalitarian development, while building part of its support around a relatively protected fraction of the urban working class — but neglecting poverty elsewhere, which ultimately generates irresistible pressure for change. Another widespread pattern is one in which the organization of labour and collective bargaining is discouraged through economic or extra-economic means, in order to maintain low wage costs, and hence promote accumulation and export-oriented growth — a system which may break down if rising real incomes eventually generate pressures for democratization at the level of the enterprise or the society. Such broad relationships between economic and institutional change may in the long term dominate the many more specific relationships between labour institutions and development.

2. *The economic functions of institutions*

There is a fairly substantial literature on the economic effects of institutions, though much of it is weakened by *ceteris paribus* assumptions. Take for example the analysis of the effects of labour market regulation on employment (e.g. Fallon and Lucas [1991] on India and Zimbabwe). The comparison between regulation and its absence is a false one, because labour markets are always regulated by a mix of formal and informal institutions; removing one may generate a variety of compensating behavioural effects, and a new institutional equilibrium, rather than the apparently

straightforward partial equilibrium results. This is the problem of treating institutions as exogenous — they are not. The transactions costs approach of neoinstitutionalist economics avoids this problem by considering that particular institutional patterns emerge because they reduce costs, or because of other economic forces, often as a result of deliberate choices by economic agents, or because of the effects of “natural” selection through competition. These costs concern non-economic variables such as distrust, the availability of information, risks of opportunistic behaviour and the like. The creation of non-economic institutions (e.g. legally enforceable contracts) which can reduce such risks is therefore cost-reducing overall, and will be favoured by competitive forces [Matthews, 1986; Nabli and Nugent, 1989a]. The literature is not always clear just how the institutions come to be created, but in a Thévenot-type cognitive model of end-seeking actors who are involved in political as well as economic processes, the link is not too hard to visualize.

There are a variety of applications to development. Take for example the labour market structures observed in rural India. In relatively stagnant, backward situations one often finds *jajmani* systems of specialized labour in which payment is related to a social position rather than to work actually done, the prevalence of payment in kind, the tying of labour to land-owners, tenancy systems related to labour obligations, and other linkages between land, credit and labour markets. Many of these institutions can be interpreted in transaction cost terms — means for the control and enforcement of contracts, ways of generating increased labour intensity, mechanisms for assuring landowners a guaranteed labour supply at peak agricultural periods, and the like. Most, but not all of these institutions are informal in nature, and reinforced by norms and conceptions of status. Such institutions, though, tend to discourage mobility and innovation, and support hierarchies unrelated to productivity, so that they are unlikely to be consistent with rapid agricultural output growth; more dynamic rural production systems seem to generate different forms of labour contract, often less personalized as far as casual labour is concerned, with less tenancy, wages paid in cash and — where the political institutions permit — more effective labour organizations.

Among other economic functions of specific labour institutions, an important one is the mobilization of the labour force. This applies to institutions promoting, say, the use of female labour, or the labour market integration of migrants. Intermediaries in the labour market — labour contractors, temporary work agencies and the like — often have an important role in mobilizing specific sorts of labour and thereby promoting the development of particular labour market structures. The economic interpretation

of systems of skill development and recognition is also interesting. Because of the effects on productivity growth, this may be one of the most important links between labour institutions and economic development. Dore et al. [1989] show how the institutional framework within Japanese firms, for instance, creates an on-the-job learning environment, making the firms "learning organisms". But skill is at least in part a social category, and the institutions for the "creation" of skill and its channelling to particular jobs play an important part in ordering hierarchies and in causing differentiation and exclusion. Institutions concerned with education, training, skill and qualifications therefore play an important role both in the process of economic growth and in determining the distribution of the gains from growth.

Neoinstitutionalist economics tends to be heavily biased towards the issue of efficiency in production, whereas a cursory overview of the list of labour institutions suggests that most of them are concerned with distribution — institutions respond to the power of particular groups to control the end use of production, rather than responding to competitive pressure to increase efficiency. For instance, internal labour markets might be visualized, not as a cost-minimizing system which is determined by considerations of efficiency, but as a system of distribution and social control, both within the firm and between the firm and the outside world, which generates labour force commitment and stability. In so doing it also creates exclusion and deprivation, but among groups which do not have the political or economic power to undermine the system. Similar factors may explain institutional structures in many unbalanced low income economies, where the institutional framework favours those in the relatively privileged parts of the system. Although economic growth might well be promoted by more egalitarian institutions, there is no automatic mechanism for institutional change in the direction of such institutions; indeed, inequalitarian systems tend to be stable because those who benefit are likely to be in a position to obstruct institutional change. In short, the political economy of labour institutions may well provide us with better models of their emergence and persistence than the cost-minimizing approach; while labour institutions which are promoted by both efficiency considerations and the reinforcement of privilege are likely to be particularly stable.

3. *The behaviour of the actors*

Interpreting the way labour institutions function involves considering the behaviour of the actors — workers, households, firms, the State — which are affected by the rules or the social structures concerned. The interaction between actors and institutions occurs at several levels. First,

institutions reflect the aims and behaviour of individuals, though they are more than the aggregation of individual behaviour. One view of institutions is as “negotiated compromises”, a mechanism for channeling the diversity of attitudes and objectives. Secondly, actors create and manipulate institutions. Thirdly, institutions constrain and mould individuals.⁸ Thus, while individuals and groups may compete for influence through the creation of organizations and the imposition of rules, these same institutions may simultaneously be conventions which regulate and stabilize the interaction between actors (and are intended to do so by the actors concerned), rendering their assumptions more transparent and their reactions more predictable [Thévenot, 1985]. This view (of institutions as consciously built and shaped by those concerned) may be contrasted with a non-cognitive vision of institutions as external to social actors, and limiting their possibilities for action (for a discussion of the contrast see Paradeise [1988]. Institutions may also operate to exclude actors from economic or social participation.

Insofar as development is seen as a process of institutional change, the key actors also change over time. Traditionally, of course, it is the actors of the industrial relations system — essentially organizations of workers and of employers — which have attracted the most attention in the literature on labour institutions. The industrial relations literature is voluminous, but relatively little of it is directly concerned with growth and development. Nevertheless, the stress on wage determination and on labour allocation in this literature provides a framework for exploring the consistency between the specific interests of the actors concerned and broader economic development objectives. A neoinstitutionalist view would perhaps start by treating industrial relations in terms of game theory. A simple negotiation between employer and worker may be represented as a prisoner’s dilemma game, in which both employer and worker are better off with a consensual, high wage-high work input solution, but in which the incentive structure generates a low wage-low work input outcome. Starting from a conflictual situation, if workers take a more consensual approach employers may take advantage of this to reduce wages; if employers become more accommodating, workers may reduce work input. The problem is then one of the institutions which may permit workers and employers to reach the optimum solution, since the economic incentives trap the system in a low level equilibrium. Such institutions may include legal instruments, independent arbitration bodies, or less formal factors such as

⁸ Cf. Bowles’ [1991] distinction between endogenous and exogenous agents in market transactions, noted above.

social norms, ideology or personal interdependence through kin or community networks which help to generate trust and co-operation.

This model is oversimplified. In practice there may be multiple equilibria, and control over the institutional framework by one of the parties to the negotiation, so biasing its effect. More to the point in the present context, the developmental linkages are dynamic, but this analysis is static. And collective organizations respond to a complex set of concerns and incentives. The linkage between industrial relations and development, for instance, depends crucially on how organizations of workers and employers respond to macro-economic considerations. It is, for example, commonly argued that by successfully defending the real income levels of their members, unions indirectly help to create unemployment (because by raising wage costs they encourage capital-labour substitution or reduce competitiveness), but only among groups not represented in the union. Insider-outsider issues are therefore important — under what circumstances do unions represent the interests of workers as a whole, and when they do not, does the interplay of trade union and employer strategies tend to lead to inequality and exclusion? These are issues on which strong views are encountered distinctly more frequently than hard evidence.

4. *The theory of the State*

In most countries the most important single actor in the field of labour institutions is the State. The State plays an active role in structuring labour use, most obviously under centralized planning, but to a varying extent also in countries which subscribe to a free market model; this can be clearly seen in rapidly growing market economies such as Singapore or the Republic of Korea, where there has been extensive state intervention in wage fixing and in controlling trade union activity. There is a close relationship between the political institutions underlying the State and labour institutions: democratic institutions render the suppression of trade unions difficult, for instance, which in turn affects the way the labour market functions and hence also the economy. In some countries the whole process of labour market functioning and organization is highly regulated, through a complex system of rules and regulations, enforced either through the State or through a system of control over the organization of labour or of production. These rules may largely serve to protect subgroups of workers or industrial sectors, they may serve to maintain work force fragmentation and to keep wage costs low, or they may reflect broader social goals of the

State, and provide legitimation for its development strategy.⁹ Elsewhere state legislative intervention may be mainly symbolic because the means of enforcement are absent. But even when the rules are effectively enforced, such systems of regulation are rarely global, and alongside them there usually exists a substantial unregulated sector — unregulated, that is, by the State, for less visible forms of regulation may substitute for legal and administrative structures. The relative importance of these explicit and implicit forms of regulation is often poorly understood, simply because formal regulation is visible to the outside observer and so dominates perception.

The political economy of the State is important for understanding the functioning of labour institutions, in terms of the nature of its class support and the way this support is rewarded. The State as producer also plays a considerable role in structuring labour institutions, and in so doing usually reinforces the power of particular groups with which it becomes allied both politically and economically. These will often include parts of the labour movement, where privilege may accumulate in favoured segments, groups who themselves develop an interest in stability, in smoothing out conflicts and preventing alternative power centres from developing. State intervention may then have interesting undeclared objectives, for example if intervention to provide temporary jobs, income support or subsidized food is designed to undercut support for radical labour movements. The links between these patterns of state intervention in labour, the nature of the political processes with which they are connected, and the pace and character of development, is an area of both controversy and importance. It underlies, for instance, much of the current debate about the desirability of privatization of state enterprises.

The neoinstitutionalist vision of the State is rather more restrictive [see in particular Eggertson, 1990], but it plays no less important a role in development — as an umpire, an enforcer of the rules, a guarantor of property rights, an institution which by providing social services reduces the costs of private transactions. But the State has also to be interpreted as an instrument of collective action, a means for not only enforcing the rules but also changing them in one's favour. The presence of the State changes incentive structures; indeed, the State and its agents would have a built-in tendency to appropriate quasi-rents for private gain, so that there is a permanent tension between predatory and benign behaviour. The links with

⁹ It is also argued (e.g. by Deyo [1987] for East Asian countries) that state intervention may have aimed at the "economic inclusion" of an increasing proportion of workers, but at the cost of their political exclusion.

labour institutions are clear, since the interests that dominate the State are likely to be associated with particular labour institutions and groups, and so are likely to affect the direction of development even if they do not affect its pace.

V. Conclusions

There are fundamental institutional issues involved in economic development; the pace and nature of development depends on sets of institutions which permit exchange, determine who has rights to what resources and the values attached to them, control the terms of agreements and provide for their enforcement. The institutions underlying growth are closely bound up with the institutions underlying distribution — particularly through labour institutions, which are crucial for both production and distribution. Both formal and informal institutions are involved; the formal institutions, on which attention is usually focussed because they are more visible, can only be understood when placed in a broader social context. These institutions are to a large degree endogenous — their evolution interacts with the development path, and economic forces determine which institutions survive — but through processes which are complex, historically specific and involve social and political as well as economic factors.

At the heart of the link between labour institutions and development lie the economic and social forces inducing workers to undertake productive work on their own account or for others. People may be induced to work in many ways: through financial and other economic incentives, positive or negative; through the promise of advancement; through the rewarding nature of the work itself; through socially reinforced motivation; through the threat of dismissal or of reduced levels of employment; through direct coercion. Each of these elements may be associated with specific institutions. These institutions will tend to form coherent systems of institutions of different types, in turn linked to patterns of control over work and patterns of distribution in the economy as a whole. Trying to understand the economic consequences of such constellations of institutions is bound to be speculative, but is of particular importance for a better understanding of the process of economic development.

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Annex 1. Labour institutions

1. The nature of employment contracts — the rules, both formal and informal, which govern hiring of workers, firing, working conditions, the length of the working day; the duration of such contracts, the nature of control over work which they imply; the extent of protection and of security. More generally, this fundamental labour institution refers to the nature of jobs, as socially defined entities involving rights, obligations, and social position.
2. The mechanisms for controlling and regulating employment contracts — state regulation (administrative or legal) or collective negotiation, or sets of values or norms held by the parties concerned. The nature of the machinery for enforcement and adjudication (such as the labour inspectorate, labour tribunals). This may also include social forms of control, e.g. through indebtedness or the threat of force.
3. The organization and representation of labour: trades unions, trade or craft associations, etc., and the areas over which they have control or influence, the ways they are organized and function. This may include whether they are unitary or fragmented, their linkage with other (e.g. political) institutions, the range of their activities.
4. The organization and representation of employers: employers' associations, business or enterprise associations and the areas over which they have control or influence, the ways they are organized and function.
5. The institutions of the labour market itself — the dominant procedures for job search and rules for access to jobs of different types, the systems for information — hiring halls, employment exchanges, newspaper advertisements, or alternatively particularistic networks of contacts and intermediaries. Discrimination, screening and selection procedures and institutional constraints on mobility may come in here.
6. The methods by which wages are paid (in cash and in kind, directly or as fringe benefits, piece or time rate, the frequency and reliability of payment, regulated by contract or discretionary).
7. The process of wage fixing: regulatory bodies, procedures, rules to be followed; negotiation and conciliation procedures; reference points and minima, their levels and the processes by which they are determined.
8. Training and skill institutions — the mechanisms for the acquisition of skills and credentials for labour market access; thus the formal and informal education and apprenticeship systems. The recognition of skills and qualifications — their acceptability as credentials for job access; and the systems for learning on the job.
9. The organization of jobs within the firm — the nature of occupational hierarchies and job progression within internal labour markets, criteria for promotion or for dismissal, the operation of work groups and the division of labour; systems for

motivation and the operation of “corporate culture”; the ways different types of firm organize labour use (small and large, formal and informal,...).

10. The structure of ownership and control over production, and in particular the rules governing the spheres of influence of workers and owners of capital or land: joint decision-making procedures, co-operative or worker-managed organizations, tenancy and the rules governing its functioning.

11. The social and state regulation of self-employment — the rules governing conditions of work, access to the means of production and to markets; the prevalence of indirect or hidden wage relationships in self-employment, e.g. in homeworking and other forms of subcontracting (to which the elements of item 1 above may apply). Property institutions are important here, particularly (but not exclusively) in agriculture.

12. Social security and income guarantee systems, the institutions for social insurance (health, unemployment...), the “social wage” — provided by the State, by the enterprise, through institutionalized private systems, through informal private community or semi-feudal networks; the conditions imposed for access to benefits. The nature of family or community obligations to support the sick or unemployed.

13. The conventional standard of life: norms and values which determine consumption standards and targets, and the social valuation of leisure, of saving and of work. Such values underlie work inputs both directly — through an internalized work ethic — and indirectly, through the pressure they put on individuals to conform to socially valued living standards.

14. The organization of labour supply: (a) within the household: the relative social and economic obligations and constraints on different family members and the way they affect labour market activity (e.g. sexual and age divisions of labour); (b) outside the household: labour gangs, labour pools, etc.

2 *Do labour institutions matter for economic development? A “régulation” approach for the OECD and Latin America with an extension to Asia*

Robert Boyer¹

This paper provides a survey of the *régulation* approach, i.e. a method for analysing the long run transformation of capitalist economies, which should not be confused with the similar word “regulation” in the English language economic literature. This framework is then extended in order to explore its possible relevance for Asian countries. The core argument is that labour market institutions, and especially capital-labour relations, play a determining role in shaping modes of development. The mechanisms for wage formation, the incentives for technical change and organizational innovation and the determinants of consumption and life styles have close links with the institutional setting which organizes the relations between capital and labour.

This is the major conclusion derived from a long run analysis of American and European capitalism. If, for example, economic growth after the Second World War has been so stable and rapid, this is precisely because a new capital-labour compromise has institutionalized a degree of productivity sharing, as well as a form of welfare state. It can be shown that this was a major ingredient in the emergence of a new, “Fordist” mode of development. Under this regime, production norms and life styles have evolved in parallel, reducing the need for downward economic adjustments of the kind observed during the inter-war period.

Consequently, modern economies have evolved in a way far removed from pure and perfect competition and markets, and a number of labour regulations seem to have played a more positive role in the dynamism and

¹ CEPREMAP (CNRS), Paris.

stability of growth than conventional neoclassical theory suggests. In fact, the example of labour regulations, or of minimum wage legislation as part of a complete welfare system, suggests that some short run inefficiencies can be compensated by dynamic efficiency.

This methodology has been applied to some developing countries, especially Latin American ones. Studies of Mexico, Brazil and Chile highlights many specific features in their capital-labour relations: even though some advanced techniques are implemented and look similar to the Fordist organization of the North, the underlying institutions are quite different. The dualistic productive structure, the general absence of strong unions, the major role of agriculture and a large informal sector suggest that the configuration has many features different from the North. Consequently, one observes a variety of development modes, quite different from the Fordist regime typical of industrialized countries.

The same approach is tentatively applied to the development of some Asian economies, such as Japan, the Republic of Korea and Taiwan (China). It is now widely recognized that industrialization strategies in several Asian countries are based on a specific capital-labour relation, which emphasizes the positive role of general education, in-house training, multi-skilling, and a compromise between managers, owners and wage earners. It can even be argued that the form of technical change itself depends on these labour institutions: there is emphasis upon learning by doing, continuous marginal improvement in management, malleability of workers permitting them to move from one job to another and importance of both product and process innovations. Perhaps these are the basic ingredients of a new model which might replace conventional Fordism.

But of course, Asian countries are extremely diverse and do not necessarily follow this general model. Nevertheless the *régulation* approach might provide a framework which would permit one to take into account these specificities.

1. From perfect labour markets to a whole spectrum of labour institutions

The last decade has witnessed a renewed interest in labour market institutions. On one side, most advanced industrialized countries, especially in Europe, have incurred high levels of unemployment, which have resisted both Keynesian and conservative strategies. Consequently, much applied research has investigated the extent to which the prevailing labour regulations and collective agreements have led to rigidities in the labour

market [OECD, 1986]. Even if the topic is still highly controversial, a rather broad consensus blames many labour institutions for causing loss of competitiveness, de-industrialization and finally unemployment. On the other side, more and more economists have perceived that conventional economic theory does not deal adequately with the very specificity of labour markets as social institutions [Akerlof, 1984; Solow, 1990]. These features are not rigidities and constraints which hinder micro and macro adjustments, but can be opportunities and advantages which help to solve the trade-off between efficiency and equity which is inherent in the wage labour contract.

Simultaneously but separately, macroeconomic theory has shifted its emphasis from an exclusive concern with short and medium run adjustments and manifested a renewed interest in long run growth, as the result of a cumulative process of technical change. For example, Robert Lucas, a key theoretician of the new classical macroeconomy, has recognized that the possible losses due to inadequate economic policies were rather small in comparison with the continuous increase of production resulting from endogenous technical change. The new models which have been developed deal explicitly with the division of labour, education and learning by doing, but they still suppose that the labour market is perfectly competitive, and full employment always prevails: these hypotheses seem crucial for most of the results obtained.

The core argument of the present paper is that economic theory should consider simultaneously the process of technical change and the dynamic efficiency of labour market institutions. The need for such an approach can be perceived from a brief survey of both growth and development theory, and might be one basic weakness of the so-called new endogenous growth theories (section II). Some French and European approaches in terms of *régulation* have in fact investigated the consequences of institutional changes for macroeconomic stability and growth, placing a strong emphasis upon the wage labour nexus as a key component of any viable mode of development (section III). An international comparison of advanced industrialized countries suggests that some job regulations, labour contracts or collective agreements might have adverse effects on short run efficiency but a positive impact upon technical change and growth (section IV).

This framework has already been used and extended in order to understand the succession of periods of growth and stagnation for a significant number of Latin American countries. The core message is straightforward, but rarely taken into account by conventional theories: on the one hand, contrasting modes of development might coexist in a given historical period; on the other, an economy may experience the shift from one

regime to another. Consequently, the same economic policies do not always lead to the same outcomes, contrary to a widely held belief (section V). Tentatively, these concepts and methods are now applied to the Asian newly industrializing countries: the question is no longer and not only the balance between agriculture and industry, but the institutional and structural conditions for export-led and ultimately domestic demand-led growth. It comes out that laissez-faire policies might hurt competitiveness and growth, whereas a form of productivity or profit sharing might help in promoting rapid and stable domestic growth (section VI). Of course, all these results are tentative and should be complemented by more sophisticated theoretical models and econometric tests designed to identify the factors explaining the different trajectories followed by Latin American and Asian NICs (section VII).

II. Labour institutions, growth theory and development economics: A brief retrospect

Development economics was initially concerned with grand issues such as markets and government, the process of growth and change, trade and industrialization [Stern, 1991]. It might be enlightening to provide a short survey of conventional growth theory, then to specify the alternative hypotheses adopted by development economists concerning the functioning of labour markets, and finally to challenge the related hypotheses adopted by the new endogenous growth theories.

1. Pure and perfect labour markets: A simplifying and key hypothesis of growth theories

Modern growth research emerges from the paradoxical conclusion of the first Keynesian models [Harrod, 1939]: the very dynamics of the multiplier and the accelerator imply the existence of a steady but unstable growth rate, since any deviation from this path would be explosive and still more would not converge toward full employment. Basically, this initial result is the extension to long term growth of the similar mechanisms which lead, in the short run, to the Keynesian unemployment equilibrium. For Keynes and most of his followers, the labour market is not self-equilibrating, but simply reflects the discrepancy between the level of employment required by effective demand and the number of persons seeking work (Table 1).

Table 1: The role of labour institutions in growth theories

Theories and/or Authors	Labour institutions	Other relevant institutions	Impact upon growth
1. Keynesian models Harrod [1939]	No self-equilibrating labour market	Adaptative expectations in investment decisions	1. Unstable growth 2. The growth rate is related to saving : $g = s/v$
2. Neo-classical theory Solow [1956] and [1957]	Walrasian labour market	Perfect financial markets	1. Stable growth 2. The growth rate is related to technical change and population
3. Vintage models Salter [1960]	Possible learning by doing	Technical change is partly embodied in machinery	1. The saving rate has a possible role 2. Labour mobility is needed to capture learning by doing
4. Cumulative causation models Kaldor [1956] [1957] and [1966]	Role of migration from agriculture to industry	Role of the embodiment of technical change in machinery	Growth is limited by the availability of labour
5. Learning by doing Arrow [1962]	Problem solving triggers learning by doing	Learning is embodied in machinery	Unlimited growth is possible with limited labour
6. Knowledge based endogenous technical change Romer [1986]	Division of labour allows specialization and extension of knowledge	Perfect competition and rational expectations	1. Cumulative growth with limited resources 2. Private investment decisions might not be optimal
7. Education led growth Uzawa [1965] Lucas [1988] Schultz [1988]	Perfect labour markets	Externalities associated with education	Sustained growth, even with limited labour force

In fact, neoclassical theory has been built upon the rebuttal of this conception and the adoption of quite opposite hypotheses. On one side, the substitutability of capital and labour is opposed to the complete complementarity assumed by Keynesians. On the other side, the existence of pure and perfect markets for capital and labour allows a smooth allocation of saving to investment and of workers to jobs [Solow, 1956]. Numerous subsequent growth models have followed the same track, and have only marginally refined this basic assumption about labour markets [Diamond, 1990]. For example, vintage models assume that technical change is partially embodied in machinery, and the seniority of workers might imply learning by doing and more productivity (Table 1). Consequently, this framework gives a more detailed analysis of technical change, which is decomposed into an embodied and disembodied part, and implies that a higher investment rate is associated with faster productivity growth over a medium-long term period. But this assumes again that labour is totally malleable across each vintage and that all workers are paid the same competitive wage, which is equal to the productivity on the oldest equipment in use, given the level of demand.

The same vision of the labour market is encapsulated in the seminal Arrow [1962] model in which continuous learning by doing allows an improvement of each vintage of equipment and consequently self-sustained growth even in the presence of a limited supply of labour. Even the various theoretical and more empirical models proposed by Kaldor [1956, 1957, 1966] do not propose a breakthrough in the formalization of the labour market. Explicitly or implicitly, growth is still limited by labour availability but migration from agriculture to industry allows the capture of the increasing returns to scale which are inherent in modern manufacturing processes. The same full employment hypothesis is necessary in the model of endogenous growth proposed by Uzawa [1965]: the labour force is divided into directly productive workers and instructors training these workers, but no new hypothesis about possible segmentation is brought into the analysis.

This benign neglect of the labour market institutions which exist in reality has been recognized by Robert Solow himself [1988] as a purely ad hoc device designed to show that growth was possible at least under some theoretical assumptions. But it is evident that in most labour markets, parity arguments, collective bargaining and agreements, and the mixing of efficiency and equity deliver a particular pattern of wage formation as well as income disparities across sectors, skills, regions, firms... More generally, a series of new micro theories of the wage contract recognize its many specificities compared with a typical contract for goods or services:

implicit contract, asymmetric information, principal/agent relationships, efficiency wage, problems of control and commitment [Stiglitz, 1988].

To date, these developments have been embedded in essentially static or at most temporary equilibrium models, with few attempts to deal with their impact upon labour mobility, growth, technical change and so on. But such issues, despite their apparent novelty for core economic theory, have long been recognized to be of special importance for development economics.

2. The imperfection of labour markets, a basic feature of most development theories

In conventional growth theory, two sector models were used to distinguish between the production of capital equipment and consumption goods, but maintained the hypothesis of perfect labour markets. In contrast, seminal research on development has pointed out a quite different distinction between a backward agricultural sector and a modern industrial one. Organization of production, the nature of products, saving behaviour and income formation differ drastically between the two parts of such a dualistic economy [Lewis, 1954; Fei and Ranis, 1964]. In the most elementary formalization, labour is redundant within the agricultural sector and in the extreme case its marginal productivity is nil. Consequently, the neoclassical or classical model of wage formation has to be replaced by the equivalent of an institutionally determined wage, whether the result of a minimum subsistence floor, redistribution within peasant families or the enforcement of a minimum wage by the State.

This institutional feature has been shown to have far reaching consequences for income distribution, employment in both sectors and the rate and stability of growth [Kelley, Williamson and Cheetham, 1972]. Generally speaking, one could expect that the migration of workers attracted by the higher wage of the modern sector will progressively erode the agricultural labour surplus, until the structural change ends with a totally modernized economy: but many other configurations might emerge from the precise modelling of labour demands and supplies. Many other studies have followed the same path and have for example tried to explain why wage differentials tend to persist between the two sectors [Harris and Todaro, 1970].

Similarly, one of the most challenging hypotheses about wage formation was coined in order to explain why a positive wage was paid to workers even if open and disguised unemployment is large. If the ability to work and the efficiency of labour is related to nutrition, then fully

rational firms would not pay the market-clearing wage but rather the level which minimizes the unit production cost [Leibenstein, 1957; Stiglitz, 1976]. This can explain why surplus labour might coexist with a positive wage for the employed workers. This crucial exception to the neoclassical vision of the wage as a purely allocating and market-equilibrating device has spread from development theory to modern micro-analysis of non-market-clearing wages in industrialized countries, but of course the mechanisms are quite different: adverse selection, moral hazard or gift exchange [Akerlof, 1984].

So development theoreticians have been pioneers in investigating some of the major specificities of capital-labour relations (Table 2). Another example concerns the search for explanations for the possible coexistence of different modes of production, from the purely capitalist form to the cooperative [Sen, 1984], not to forget the huge literature on the agricultural household and its specific behaviour and rationality [Chayanov, 1925; Singh et al., 1986]. This opens a basis for rigorous comparisons of economic systems through an explicit formalization of the impact of existing institutions upon both individual behaviour and macroeconomic regularities. Concerning the agricultural household model, the efficiency of the related equilibrium depends heavily upon the existence of a complete set of labour and credit markets. If, on the contrary, the access to credit and land is limited and imperfect, then inefficiency and disguised unemployment might prevail. Still more, the distribution of land ownership is a possible origin for dualistic structures in developing economies. Dualism then arises not because of the lack of rationality of the peasants and/or urban workers, but through the legal organizations, the institutions and markets with which they interact [Stiglitz, 1988].

In all these approaches, labour institutions matter as regards the nature of the short run equilibrium and the welfare of a society. Nevertheless, however stimulating they might be, these approaches suffer from two major drawbacks. Firstly, they all compare the existing set of institutions with a totally fictitious Walrasian economy which would deliver a Pareto optimum, without considering that large transaction costs could finally make such an ideal unattainable and so irrelevant for really existing economies [Williamson, 1985]. It would be better to compare alternative institutional arrangements, for example in terms of labour contracts, and assess their impact upon short run equilibrium, inequality, income distribution and so on. Secondly, much research suggests that the purely static welfare losses are generally small, even when the deviation from optimal behaviour is large [Akerlof and Yellen, 1985]. The impact upon long term growth is usually far more important: one year of sustained growth might represent

Table 2: The *implicit* labour institutions in some key development theories

Theories and/or Authors	Labour institutions	Impact upon equilibrium
1. Surplus Labour Theories Lewis [1954] Ranis and Fei [1961]	a. Shadow wage in agriculture is nil b. Migration triggered by higher urban wage	Generally positive : wage moderation allows capital accumulation
2. Agricultural household model and complete markets Chayanov [1925] Singh & al [1986]	a. Integration of production and consumption b. All markets exist and are competitive	. Separability of production and consumption . Efficiency of allocation
3. Household model with absent markets Sen [1966]	Absence of labour market, or access to credit and land	. Inefficiency . Disguised unemployment . Possible dualism associated with land ownership
4. Efficiency wage Theory Leibenstein [1957] Stiglitz [1976]	a. The work effort is related to nutrition b. Firms select the wage minimizing unit costs	a. Existence of a floor for the wage b. Dualism of the labour market, absence of impact of underemployment upon wage
5. Two sector unemployment equilibrium models Todaro [1969] Harris and Todaro [1970]	a. Migration from rural to urban areas b. Migrants take into account the risk of unemployment	. Durable wage differentials . Urban unemployment and growth
6. Theories with coexisting production modes Sen [1975]	a. Potential existence of various production modes: family, wage employment, cooperative system	. Possible explanation of dualism . Variability across countries and periods, depending upon technology, costs,...

additional production superior to the static welfare losses. This second issue is especially important for development economics. The bulk of the labour institutions should be analysed in relation to the process of technical change, the mobility from obsolete to new jobs, the nature of competition, i.e. the structural features which interact in setting the long term rate of growth and the evolution of income and wealth distributions [Rodgers, 1991]. For less developed countries, the complex interactions between demographic trends and growth have also to be taken into account [Kuznets, 1973; Boserup, 1981; Simon, 1992] along with the relationships between health and nutrition [Behrman and Deolalikar, 1988].

Among the recent surveys of the economics of development [Lewis, 1990; Stern, 1991; Chenery and Srinivasan, 1988; Summers and Thomas 1992; Srinivasan, 1990; Barthelemy et al., 1991], very few explicitly deal with the impact of labour institutions upon endogenous growth [Freeman, 1993]. But precisely under this heading, some prominent economists have recently investigated again the origins of cumulative growth, and sometimes built models intended to bridge the gap between pure growth theory and development analyses [Lucas, 1988; Stiglitz, 1989]. Given the aim of the present paper, the question is then: what role do these models attribute to labour market institutions?

3. *Endogenous growth theories: Division of labour but few if any labour institutions*

The starting point of most of these models is the famous introductory chapter of the *Wealth of Nations*, according which increases in productivity are related to the increasing division of labour, whereas the size of the market is the limiting factor for endogenous technical change. This used to be a key reference for Kaldor [1966, 1981], himself quoting Young [1928], and this cumulative causation approach stimulated a significant number of studies during the 1970s and 1980s, including some by the present author and colleagues [Boyer and Petit, 1991a,b; Boyer and Coriat, 1986].

This theme has been legitimized again within the neoclassical approach by Romer [1986], who has shown that full intertemporal maximization by individuals and firms would lead to a definite equilibrium, provided that the increasing returns to scale associated with the division of labour and with product and design differentiation are external to each of the economic units. In a sense, rational expectations and individual maximization are replacing the social welfare functions which were set by a central planner in the Uzawa [1965] model of endogenous growth (Table 1). More

precisely, division of labour occurs when the size of the market is sufficient for some engineers to specialize in the task of designing new intermediate products or equipment [Romer, 1986], or training production workers becomes worth while [Lucas, 1988], or alternatively differentiated quality improvements are used as a method for capturing oligopolistic rents and market shares [Grossman and Helpman, 1991]. Learning by doing, i.e. on the job accumulation of human capital, is another basic mechanism for endogenous growth [Lucas, 1993].

Consequently, labour markets set not only the average wage but also the wage differential between blue-collar workers and engineers, unskilled and skilled workers, and production engineers and researchers looking for new products and processes. But apart from this increase in labour market complexity, the principal features of conventional modelling in the neo-classical spirit are kept by this new vintage of growth models. In some formulations, the emphasis is put upon learning by doing, i.e. the joint production of knowledge and goods in the production process, or upon the positive role of general education in enhancing the abilities and skills of workers. The only departure from earlier neoclassical modelling is that a pure market equilibrium does not correspond in general to a Pareto optimum, since individuals invest too little in R and D, education, and more generally in innovation. Taxes or subsidies are therefore proposed in order to correct these discrepancies, with little or no consideration given to labour market organization.

Some authors have contemplated the possibility of explaining both development and under-development as the outcome of institutions which in some cases foster investment, learning by doing and spending on infrastructure, and in other instances quite on the contrary block any move toward increasing returns to scale due to the spillover of investment [Stiglitz, 1989]. To my knowledge, few authors have investigated the impact upon the nature and defence of workers' interests, and the possible impact upon industrial relations and ultimately wage formation [for an exception, see Leijonhufvud, 1986]. In a sense, all these models remain quite abstract and consequently are not easily applied to any field or case study: growth is directly the outcome of a myriad of individual economic units interacting only via markets, and there exist no intermediate institutions such as unions, R and D agencies or business associations, i.e. organizations which usually play a role in coordinating a series of decentralized strategies. The new models provide richer insights and potentially more realistic representations of technical change, but they grant no role to labour market institutions or any other organization. This contradicts the common sense observation: underdevelopment is also a question of

inadequate or insufficiently widespread institutions, in comparison with the sophisticated organization found in the more advanced industrialized countries [Abramovitz, 1989; Bates, 1990].

It is therefore not a real surprise if the existence of contrasted national trajectories is not easily explained. For example, in a recent lecture Lucas [1991] asked why India has not followed the same fast industrializing process as South Korea or other Asian NICs. In spite of a clever use of the tools of endogenous growth theory, the author was unable to provide any satisfactory answer, basically because the model was not rich enough to identify the key conditions for cumulative development. Finally, Lucas recommended a visit to South Korea to meet the businessmen and politicians in charge of this economy! Clearly, there is still a gap between the charm of high theory and the basic question of development economics: what are the necessary and/or sufficient conditions for takeoff? The terminology might seem obsolete, but the question is left basically unanswered by modern theoreticians. The inherent difficulties of such an issue are evident, but the benign neglect of economic institutions might be one of the key reasons for such an apparent failure.

This lacuna is not inevitable since a large variety of theories now deal with the logic, the outcome and the evolution of economic institutions [Arrow, 1974; Williamson, 1985; and the survey of Eggertsson, 1990]. Although most of them focus upon the nature of short run equilibria, some do address the issue under review, i.e. the impact of institutions upon development [North, 1981, 1991; Lane and Ersson, 1990]. The subsequent sections are devoted to the presentation of one of these approaches. Initially designed for the analysis of the secular transformations of American, French and European capitalism, the so-called *régulation* school [Aglietta, 1982; Boyer, 1988a, 1990b] has proposed a set of concepts in order to tentatively assess the impact of institutions upon inflation, growth and unemployment. Among the major changes observed, labour market institutions and the wage labour nexus have turned out to be key determinants of the succession of growth regimes punctuated by deep structural crises. In the next section, some comparisons of labour institutions across developed nations will be provided in order to deliver a central message: in the long term, some institutionalization of labour might be of benefit to growth, stability and even equity.

III. Long term capitalist growth in retrospect: The method, concepts and results of the "régulation" approach

This approach adopts a strategic hypothesis: economic adjustments cannot be disentangled from social relationships and values, political and economic rules of the game, and more generally the web of interrelated institutions. Basically, the name of this school of economic analysis derives from the transformation of a concept borrowed from biology: a *régulation* mode describes the set of negative and positive feedbacks in relation to the stability of a complex network of interactions. When transposed to economics and adapted and developed accordingly, a form of *régulation* denotes any dynamic process of adaptation of production and social demand, resulting from a conjunction of economic adjustments linked to a given configuration of social relations, forms of organization and productive structures [Boyer, 1988a]. Let us prevent a possible misunderstanding by pointing out that the French term *régulation* has only a weak relationship with the English word regulation and its opposite, deregulation. By nature, the *régulation* approaches are mainly macroeconomic in orientation. They try to understand why growth rates differ, or to answer questions such as why the great depression of 1929-1932 has not been repeated after the recent stock market crashes. They try to address the question why an economic regime is at first successful and spreads, and up to a point matures, but then enters into relative decline and/or instability.

1. Four basic institutions at the core of growth regimes

This theory has given rise to two series of macro-models. One group has focused upon short and medium run adjustments of income, money, inflation and unemployment [Boyer and Mistral, 1978; Benassy et al., 1979]. The second has addressed the issue of development, and consequently has proposed analyses and formalizations of long-term growth. The present paper will exclusively focus upon the latter question. Three distinctive features have to be stressed. First, this research programme tries to combine inductive and deductive methods, in other words intends to provide some bridges between the stylized facts of economic historians and the highly abstract growth theory. Second, and consequently, there is probably no grand theory able to explain synthetically the whole set of relevant stylized facts. In my opinion this is the Achille's heel of conventional economic theory, including the more contemporary and promising approaches. By contrast, the *régulation* approach looks for local and

period-dependent analyses of development, by offering a set of intermediate concepts which describe the coordination mechanisms actually in use for a given economy and historical period. Third, capital accumulation is considered to be the driving force of capitalist society and, conversely, its blocking might be the main source of underdevelopment. But since accumulation is a fairly uneven and contradictory process, we have to investigate under what conditions the conflicts and disequilibria inherent in capital accumulation nevertheless deliver the possibility of periods of sustained growth.

The answer is simple. Cumulative growth will be possible if the four basic institutional forms which define a capitalist economy promote a productivity regime on one side and a demand regime on the other which are coherent *ex post*, i.e. able to define a growth regime, with the property of self-equilibration with respect to both internal dynamics and possible external shocks. Let us briefly present the broad relationships between the four institutional forms and long term growth (Figure 1).

First of all, the wage labour nexus describes the configuration associated with a given state of the division of labour, as well as of income distribution. Following the initial hint by Adam Smith, which was taken a step forward by Marx, the forms of production organization within firms and their relations with the market are the key factors shaping a productivity regime. Briefly, each stage in the history of the division of labour is associated with particular determinants of productivity increases, which combine in various degrees the impact of specialization, learning by doing, the design of equipment and the minimum scale for efficiency [Boyer and Schmeder, 1990]. An economy composed exclusively of craftsmen and pin manufacturers, or Fordist assembly-lines and Silicon Valley high tech firms, would clearly exhibit contrasting productivity regimes. This distinction is crucial for development economics: there is no natural and general form of production function. It would be absurd, for example, to look for a significant influence of industrial R and D expenditures in a poor African agricultural country.

Secondly, conventional growth theory has been built around the hypothesis of pure competition, just for simplicity's sake [Solow, 1988]. But it is clear that in most economies imperfect competition prevails, whatever its origin: barriers to entry, uncertainty about quality, collusion among a small number of producers... Identifying these forms of competition is important for any analysis of price formation and of course investment decisions. The new theories of industrial organization convincingly argue that the dynamics of profit, investment and price are highly sensitive to the institutional setting which codifies the relations between firms [Tirole,

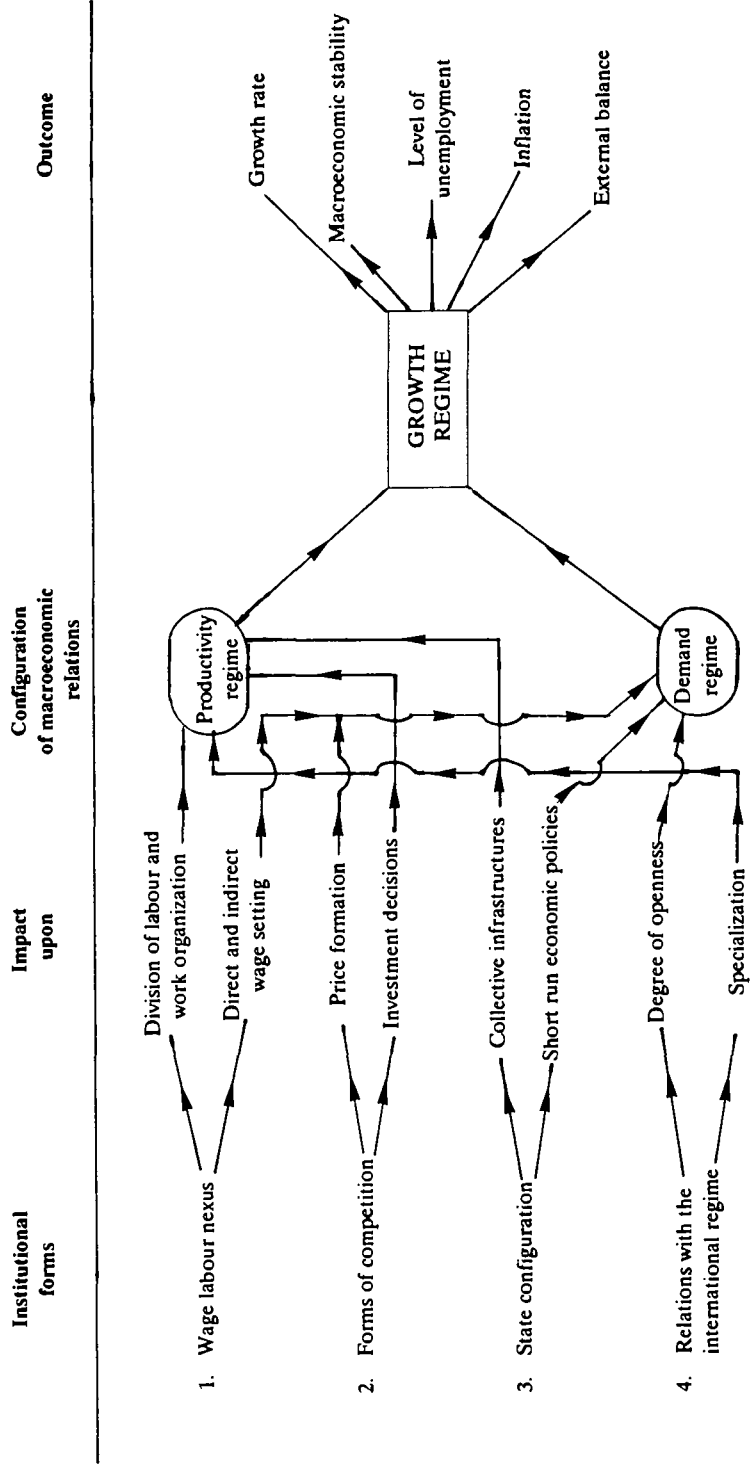
1988]. This can explain differing trajectories in terms of capacity utilization, investment or even innovation. So productivity regimes partly result from the forms of competition (Figure 1).

The State has then to be introduced into the analysis. Property right theoreticians have pointed to the role of the constitution and law as prerequisites of any capitalist market economy. The current experience in introducing market mechanisms in Eastern Europe clearly shows how crucial these institutions are for investment and growth. A similar remark can be made concerning the poorest under-developed countries: the weakness or non-existence of their basic institutions might to a significant extent explain recurrent scarcities or even famines. Under this general heading, the viability of any contract supposes not only laws and jurisdictions but also a rather stable monetary system. In the writings of Adam Smith, specialization and deepening of the division of labour can only occur if market relations are stable over the foreseeable future. At the same time, the modern State in advanced capitalist countries has extended its interventions toward the supply of many collective goods which are necessary for the efficiency and growth of a market economy: education, training, health, transport infrastructures, telecommunications, and support to innovation. Consequently, state interventions contribute to both the productivity and the demand regimes.

A fourth institutional form relates to the nature of the international regime on the one hand, and the insertion of a given country or region into this regime on the other. In each historical period, there exists a set of institutions, explicit or implicit rules which define the rights and duties of any country concerning external trade, short run capital movements, exchange rate determination, foreign investment, property rights and so on... Consequently, the constraints and opportunities created by a given international regime are to be taken into account in any analysis of long term national growth [Mistral, 1986; Keohane, 1984]. Similarly, within such a regime, countries may experience varying degrees of openness, control over the price of exports, and of course diverse forms of specialization (primary or intermediate products, low or high quality consumer goods, capital goods...). Therefore the productivity regime is clearly influenced by the insertion in the international economy: from a quasi-closed continental economy to a small open country, there is a whole spectrum of configurations.

It remains to be proved that these institutional differences actually matter in any significant manner for growth. Such a demonstration is especially difficult, but numerous studies in terms of *régulation* have delivered rather coherent and hopefully convincing evidence.

Figure 1: An institutional analysis of growth regimes: the basic concepts of the "régulation" approach



2. Development is structural and institutional change, not only growth

A study of the French economy over two centuries provides a fairly good confirmation of this vision (Table 3). First of all, the growth pattern has not been steady but exhibits contrasted periods of rapid growth, then quasi-stagnation and instability and finally a renewal of growth along a new path. A survey of political and institutional history confirms that structural changes and economic dynamism are closely interrelated.

During some periods, the disequilibria and conflicts are so acute that they cannot be accommodated within the previous institutional setting: during such structural crises, the coordinating mechanisms are transforming themselves by the erosion of the old ones; a trial and error process takes place which deeply involves the political sphere. The period 1873-1896, the 1930s and the years since 1973 are characterized by flux in the wage labour nexus (nowadays the search for flexibility), in the nature of competition (globalization at the world level and deregulation at home), and in the objectives of state interventions (preserve financial stability at the cost of rising unemployment), while the old international regime evolves in response to declining hegemonic power and the rise of competitors.

In contrast, the two world wars, and especially the second, offer examples of rapid change in almost all the economic institutions. International change as a result of the Second World War turned out to be able to induce rapid growth, without major disruption, with the possible exception of accelerating inflation after 1967. So development intimately mixes organizational change and economic adjustments, but the causality and the timing are complex indeed. In any case it would be impossible to maintain the hypothesis that these changes were only marginal and accidental: could one imagine modern French industry within the same political and legal structures which used to prevail before 1789? Similarly, in the absence of the Second World War, would the French economy have grown as quickly as observed?

Of course, more detailed arguments would be needed to convince the sceptical reader, but this historical record demonstrates the inadequacy of the conventional interpretation of institutions by neoclassical theorists: at best institutions would introduce frictions and minor discrepancies with respect to a Walrasian equilibrium and would be unnecessary in the long run; at worst, they would totally inhibit competition and innovation and undermine standards of living. But on the contrary, the inner economic mechanisms concerning productivity, wage income and price formation have been transformed by the new role of the State in collective infra-

Table 3: In the long run, the major institutional forms have

Periods Institu- tional forms	1789	1848	1873	1896	1914 - 1918
<ul style="list-style-type: none"> • WAGE LABOUR NEXUS - Work organiza- tion - Lifestyle 	Manufactures replace craftsmen	Work duration is extended but reaches crisis level	Limitations of malleability of work rules	Early Scientific Management	Massive use of Taylorist methods.....
<ul style="list-style-type: none"> • COMPETITION - Concentration and centraliza- tion - Price formation 	Large plants are emerging.....	Tendency towards concentration	Finance capital is strengthening		Cooperation large firms/State
<ul style="list-style-type: none"> • STATE - Budget & taxes - Money & credit 	Limited to general functionseven if regulations are important	Significant economic interventions (railways)	Small size of budget/GDP	Unprecedented surge
<ul style="list-style-type: none"> • INTERNATIONAL REGIME - Hegemonic countries - Cohesive forces 	England is the core of the industrial revolution.....		and the banker of the world United States and Germany are challenging British hegemony		British decline is reinforced
	Exchange of manufactured goods versus primary commodities		The relative stability derives from the position of England		The loss of competitiveness

Source : CEPREMAP-CORDES [1977]

been transforming themselves: The French case

1929	1939 - 1952	1967	1973	1980
<p>.....implemented for civilian goods.....</p> <p>.....but workers oppose it</p> <p>Social wage is recognized as a principle</p> <p>Industrial cartels and financial holdings</p> <p>First example of mark-up pricing</p> <p>Budgetary cuts.....</p> <p>Relative growth in the the depression</p> <p>.....so is the postwar boom</p> <p>Return to gold standard</p> <p>.....surge of US might</p> <p>.....destabilizes the system</p>	<p>Industrial disruption and recovery</p> <p>Launching of a complete welfare system Workers benefit from mass consumption</p> <p>Basis for national planning</p> <p>State controls</p> <p>New and high level for public spending/GDP</p> <p>US is now hegemonic, organizes and stabilizes the international regime.....</p> <p>A new international order.....</p>	<p>Fordism becomes dominant.....</p> <p>Concentration of markets.....</p> <p>* Administered prices, public control...</p> <p>* Medium term strategy in pricing decisions</p> <p>Slow growth.....stabilization.....growth of the size of State</p> <p>Credit money has a leading role....</p> <p>.....allows OECD growth.....</p>	<p>.....But hits some limits</p> <p>.....French holdings become international....</p> <p>.....periodic devaluations.....</p> <p>.....attempted monetary controls</p> <p>.....which is challenged by new competitors</p> <p>.....till the crisis of the Bretton Woods arrangements</p>	<p>The search for new forms</p> <p>The slowdown shakes Welfare State financial stability</p> <p>...a new balance between home and international strategy</p> <p>the return to more price competition</p> <p>.....attempt to curb public spending</p> <p>.....crisis of economic policy</p> <p>Underlying crisis of US leadership</p> <p>A very unstable system</p>

structures and the design of the welfare system, the emergence of large firms and conglomerates, and the rise of unions and political organization. The case of industrial relations is enlightening. Along with the changing division of labour, collective organizations of both workers and employers emerged, the bargaining process was significantly altered and new modes of *régulation* developed from the very unfolding of capital accumulation. It has now to be shown that this has had a significant impact on economic outcomes such as productivity and demand regimes.

The endogeneity of economic institutions has definite consequences for the strategies of research on development. If this view is correct, one can no longer treat the complex set of local institutions as exceptions to a general model of development; they have to be taken seriously, for they shape the behaviour of economic units, their interactions and finally macro-economic equilibrium. Quite significantly Stern [1991, p. 206] concludes his survey by praising studies "essentially microeconomics, tightly focused on particular questions, (which) take careful account of the major institutions associated with the issues under study". Consequently, theories of development should first be local, and we should only try afterwards to diagnose the contours of a possible general theory of development. A careful investigation of the institutional setting is therefore needed before any formalization. This fits with the strategy of structural macroeconomics [Taylor, 1991] and partially responds to the challenge put forward by Rodgers [1991].

3. *Labour institutions matter for wage formation*

The second stage of the analysis has to highlight instances in which long run institutional changes have altered economic mechanisms. The formation of nominal wages in France over the last 200 years gives one insight into these changes [Boyer, 1979]. At least four wage patterns, closely associated with the transformations of the wage labour nexus, have been observed. During the 18th century, the nominal wage was quite rigid, rather insensitive to labour market disequilibria and not at all indexed with respect to the price level. In *régulation à l'ancienne*, the real wage fell rapidly when insufficient food production caused an inflationary crisis. This was a consequence of the marginal role of wage earners, embedded in an economy driven by the agricultural sector, whereas wage formation was built upon the conventions typical of craft production.

When the industrial revolution took off, these mechanisms were slowly altered and local and urban labour markets progressively emerged, but still remained largely disconnected. Initially, workers' associations

were forbidden by law; each labour contract was essentially individual with no collective bargaining involved. Still fewer employment contracts were of long duration. All these institutional features might explain the determinants of wage formation at this time: considerable heterogeneity of wages across skills, sectors and regions; absence of any clear meaning of the modern concept of average wage; strong competitive forces operating at the local level; inability of workers to pass any consumer price increases into wage increases. This is a typical competitive *régulation*. When industrial production booms, so does the nominal wage, while during industrial downturns the nominal wage declines in absolute terms. This recalls some features of the pure labour market of neoclassical theory, but does not have the same property of maintaining full employment, nor of providing an equal wage for the same skills, due to the local nature of most labour markets.

As industrialization continued, from one business cycle to another the whole institutional setting evolved. The average size of plant increased, and so did the population of wage earners and consequently their ability to organize and to go on strike for better wages, protective regulations and shorter working time. Initially the impact was small: for instance wages responded less to cyclical downturns but still reacted positively in boom periods. Similarly, after the First World War the unprecedented high inflation made the indexing of wages more important, and the specific political circumstances made such an innovation possible or even inescapable. Consequently, a new pattern emerged for wages. The integration of the various local markets, the introduction of job ladders and careers and the stratification of skills by collective agreements now gave a central role to the average wage, since most individual wages tended to follow roughly the same rate of increase. During the inter-war period, the nominal wage reacted both to the fluctuations in industrial production, as was previously the case for local markets, and to the cost of living index, designed by state statisticians to track the evolution of the standards of living of wage earners and so respond to the demands of unions. It is worth stressing that there is a significant lag between the changes in the institutional setting and their actual impact, even if they are sufficiently large to potentially alter wage formation. Clearly structural transformations only take place over several decades, for they often suppose the renewal of generations and the shaping of industrial structures by the new institutions, and conversely.

A fourth wage pattern progressively emerged from the political and social turmoil during and after the Second World War. A large Welfare State provided minimal security to wage earners, collective bargaining was rather disconnected from the direct pressure of unemployment, itself quite

limited until the 1970s, and continuous inflation encouraged a full and fast indexing of wages with respect to prices. This underlying transformation was not fully perceived until the two oil shocks, at which point it became apparent for everybody that wage formation had significantly changed in comparison with the interwar period. In spite of a large increase in unemployment, nominal, and for a number of years even real wages kept growing, in accordance with previously negotiated pay systems. Note that this pattern required a prolonged boom of the world economy, an accommodating monetary policy, the sustainability of large public deficits and the persistence of buoyant investment in spite of poor profits and a deterioration of the financial stability of firms and banks.

This excessively brief summary delivers three major insights. First of all, labour institutions do not represent mere frictions or approximations in relation to a pure labour market, but shape individual behaviour patterns and consequently macroeconomic outcomes. This does not mean that any intervention through labour law will succeed in altering the functioning of labour markets, and improving the welfare of wage earners: French history is rich with such misplaced hopes! Nevertheless, via a trial and error process, the institutional building of the wage labour nexus is clear enough: compare for example the American and the Japanese configurations, or alternatively the German and the French ones. In the very long run labour institutions matter as regards mobility, wage formation, technical change and ultimately standards of living [Boyer, 1988c].

Second, the time scale needed for such an adjustment of institutions and economic dynamics is far longer than economists imagine and politicians hope: at least a decade and more likely a quarter of a century. But this has been observed for European countries, and will not necessarily apply to the unprecedentedly fast-growing Asian NICs.

Finally, a third specificity of this vision has to be stressed. In the new institutional economics, each organization or type of contract is analysed through its micro-foundations and through the compatibility of a complete set of incentives. Sometimes one gets the impression that it is thought that an optimal design could deliver the best practice in a fully decentralized manner with little or no consideration for other surrounding institutions. On the contrary, the *régulation* approach, without denying the importance of sound micro-foundations, stresses the structural compatibility of the major institutional forms. For instance, the Fordist wage formula required a permissive monetary system and a rather closed economy, or at least a stable international system. Conversely, what many economists treat as an inherent flaw at the micro-level in Europe today (for example wage rigidity) might result from the inadequacy of the prevailing labour

institutions in the new macroeconomic context and the occurrence of unprecedented shocks (decay of the international system, shift in the objective of economic policies, consequences of global competition and financial deregulation...).

Hence an important issue: do labour institutions matter for growth regimes or do they simply follow structural trends set in other spheres, for example by technical change?

4. *A multiplicity of growth regimes*

The previous arguments can be summarized in a very crude model which nevertheless incorporates the possibility of a multiplicity of regimes (Annex 1). This gives a formal representation of the general ideas sketched in Figure 1. From a theoretical point of view, the wage labour nexus can play a role in both of the two major components of a long term growth model.

First, the productivity regime derives from the nature of the division of labour, even if it is difficult to capture such a subtle mechanism by crude macroeconomic variables. For example, a craft-based economy with high skills probably exhibits significant learning by doing effects, measured imperfectly by the cumulated total output. If, on the contrary, innovation is embodied in machinery and equipment, the rate of capital formation will be the leading factor. Finally, in technologically leading countries, the basic sources of innovation may be scientists and researchers, via R and D expenditures and the patenting of innovations. More subtly, the very characteristics of the wage labour nexus in manufacturing and services can play a role in fostering either an external and numerical labour flexibility, or an organizational malleability, cumulative learning and permanent product innovations (see section IV.1 below).

Second, each wage labour nexus exhibits a specific wage formation mechanism, with differing consequences for the nature of the demand regime (Annex 1, equation II). At one extreme, atomistic competition, the absence of unions and the lack of state regulation might induce wage dynamics quite similar to those observed in early competitive capitalism: limited indexation with respect to consumer prices and strong influence of labour market disequilibria, local or regional and national. At the other extreme, a strong union can negotiate centrally on wages, working conditions and possibly welfare. Another intermediate case to be considered deals with productivity sharing at the firm level. In yet other configurations, small open economies might exhibit a pattern of wage formation closely related to world prices and productivity levels in the export sector. If needed, the

model could explicitly deal with the evolution of wage earners' lifestyles, but to be convincing, this would call for a disaggregation of the productive system, with a distinction between agriculture and industry at least. Such an approach can be found in the structuralist models elaborated by Taylor [1983], but is not pursued further here.

Nevertheless, this elementary model is sufficient rich to provide a variety of regimes. The productivity regime can be upward sloping with growth if there is positive feedback from growth to investment and innovation. But if wages are strongly competitive, profits might be squeezed and hinder investment and productivity: the productivity regime would be downward sloping. On the other hand, the demand regime might increase or decrease along with productivity, according to the strength of the relative impact of income distribution upon investment, consumption and external competitiveness.

Therefore, many contrasted regimes can be generated by this elementary framework [for a complete discussion see Boyer, 1988c]. If one now assumes a given set of institutional forms and the related components of the productivity and demand regimes, this framework allows one to assess the viability of a given form for the wage labour nexus: in some instances growth will be unstable, in others it will be slow and even economic decline can occur. This gives an illustration of the macro-compatibility of labour institutions with the other characteristics of the economy to be modelled. But these possibilities may remain totally abstract. It remains to be shown that some capitalist economies have experienced a shift from one growth regime to another and that transformations of the capital-labour relations have played a significant role.

5. *The wage labour nexus: A key component of the postwar Fordist growth regime*

Converging research projects have actually verified this hypothesis for the American economy [Aglietta, 1982; Caussat, 1981; Leroy, 1988]. A short summary of the major findings is provided by Annex 2, derived from Boyer [1989]. How should one interpret the significant change in the growth pattern observed after the Second World War: faster growth, dampening of business cycles, persistent inflation and absence of any cumulative depression of the 1929-1932 type? The answer given by the *régulation* approach is that a new growth regime emerged, generated by the compatibility of far-reaching institutional and technological changes. The evidence suggests that the alteration in the wage labour nexus has played a key role. In fact, a crude estimate of the major equations of the

model proposed in Annex 1 delivers three major conclusions.

First of all, the large inventory of innovations due to the Second World War can be implemented in new processes and industries, given that the equivalent of a capital-labour compromise emerges: workers accept the Fordist methods provided that the related productivity gains lead to significant wage increases and the implementation of some components of the welfare state. Consequently, the exogenous trend in technological change increases whereas significant returns to scale continue to prevail (equation 1, Annex 2). Many case studies suggest that the evolution in industrial relations was not unrelated with this burst of innovations and productivity increase [Freeman and Medoff, 1984].

But a second and still more significant change relates to wage bargaining. Rather strong unions have the bargaining power to impose three-year collective agreements with explicit indexing to prices (COLA) and implicit indexing to productivity and more generally to the financial results of the leading industrial firms. From an econometric point of view, the previous competitive mechanisms determining wages are progressively replaced by a more institutionalized income formation [Leroy, 1988, 1992]. This second structural change is broadly confirmed by the second equation of Annex 2. Note that the transformations are similar to those which occurred in France, as summarized in the preceding section. French managers and public authorities were copying the American model and turned out to be quite successful in this adaptation process [Boyer, 1990c]. This suggests the existence of a limited number of wage labour nexuses for a given epoch, which simplifies the task of building a taxonomy and an institutional theory of labour markets.

A third and related transformation concerns the shift from a profit- and investment-led demand regime to a wage- and consumption-led regime, itself related to the access of wage-earners to mass consumption (equation 3, Annex 2). At the same time, the behaviour of investment is more stable than it was in the inter-war period, and does not seem very sensitive to the profit or interest rates but is closely related to household consumption, in line with the old but robust conception of an accelerator effect for investment.

However limited and shaky, this model allows the equivalent of a counterfactual history: what would have been the growth pattern of the US economy in the absence of any transformation in wage formation? Interesting conclusions emerge from examining the question (see Annex 2). First of all, the demand regime before the Second World War was actually stagnationist, since given the limited sensitivity of wages to productivity, any burst in innovation and productivity was associated with an increase

in the equilibrium productivity rate but simultaneously a reduction in the growth rate. This roughly corresponds to the experience of the 1920s: booming demand but slow development of mass consumption. So if, after the Second World War, the capital-labour compromise had been kept unchanged, the acceleration of productivity would have triggered a reduction of growth even in the middle of fast technological change. One realizes how different is this growth regime approach, compared with standard neoclassical models which assume Say's law and permanent full employment. By assumption, such a stagnationist outcome is impossible in models of the latter type.

Therefore the new growth pattern actually observed could not have taken place without some structural changes in the wage labour nexus: when wages become more indexed with productivity (but not too much), the demand regime is "exhilarationist" [Marglin and Bhaduri, 1990] and this interacts with the cumulative causation model through innovation, investment and increasing returns to scale. Consequently, the economy is propelled toward a new growth path, with a higher equilibrium growth rate.

According to this evidence, changes in labour institutions have mattered for American growth, and the same result has been obtained for the French economy, as well as for many other European countries [Basle, Mazier and Vidal, 1984]. It is therefore interesting to compare advanced industrialized countries more widely and examine whether their labour institutions play a role in their relative macroeconomic achievements.

IV. Labour institutions and economic performance: A comparison of OECD countries

Since the mid 1980s, a lively debate has taken place concerning the rigidities which were implicit in the post-war wage labour nexus and which have been revealed by the two oil shocks, the recurrent instabilities in the world economy and the stiffening of competition between old industrialized and newly industrializing countries. Many authors have argued that more decentralized wage bargaining was delivering more flexibility and consequently less unemployment [Klau and Mittelstadt, 1986]. On the contrary, others have suggested that centralization and strong unions actually delivered better results [Bruno and Sachs, 1985]. Finally, some synthetic models deliver an eclectic message: both totally centralized and decentralized industrial relations may deliver good employment results, but the

intermediate configuration would be inferior [Calmfors and Driffill, 1988; Cahuc, 1991; Carlin and Soskice, 1990; and incidently Bowles and Boyer, 1990].

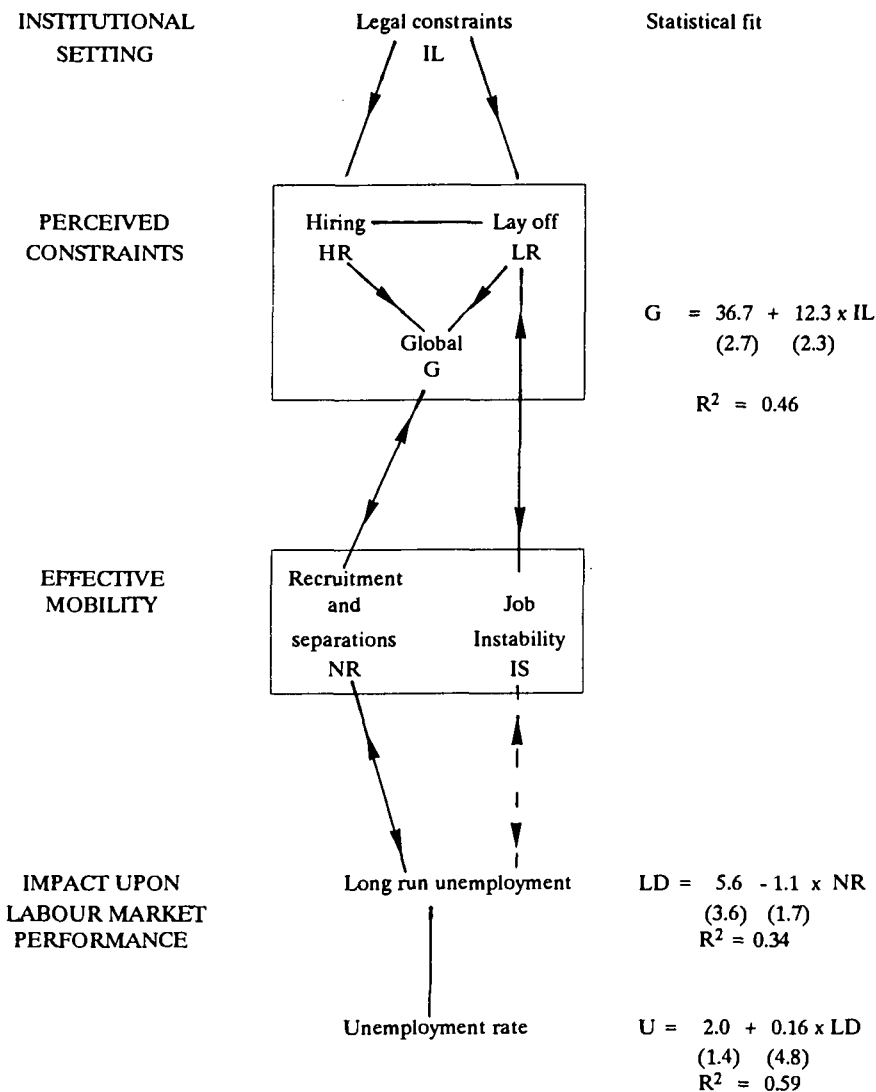
A different avenue has been explored [Boyer, 1990a,b,c] and will be briefly summarized here, in order to present the analytical tools which are subsequently used for analysing Latin American and Asian developing countries. The basic idea is simple: any configuration of labour institutions has to search for a trade-off between static efficiency and economic performance in the long run, i.e. dynamic efficiency.

1. Some job regulations may enhance productivity and quality, at the possible cost of short run inefficiencies

Under the pressure of workers' demands, controls over firing, layoff and hiring have often been introduced through collective agreements or legislation. What have been the consequences of such transformations in the wage labour nexus? Conventional labour economics delivers a clear cut message: the constraints imposed upon firms imply extra costs; consequently, the demand for labour will be negatively affected by such a burden and ultimately the employment level will be lower, with a likely loss of welfare for the society. Of course, most jobs are protected from unfair dismissal, but the lower employment level will hurt newcomers on the labour market. According to this analysis, any job regulations are unambiguously detrimental.

Other approaches deliver a more balanced view and compare the macroeconomic performance of major OECD countries when their labour regulations vary [Buechtemann, 1993; Brunetta and Dell'Aringa, 1990]. Our analysis stresses the trade-off between short run labour market disequilibria and adjustments which are highlighted by neoclassical theory, and the long run impact of these regulations upon the growth regime. This trade-off can be summarized by two opposite results (Table 4).

As far as short run labour market adjustments are concerned, a simple statistical analysis across 18 OECD countries suggests that legal constraints imposed upon hiring and firing are clearly perceived by firms and affect the frequency of recruitment and separation. If the promotion of job stability is the only objective of such regulations, there is no doubt that they have been successful. If on the contrary their ultimate aim is to fight against unemployment, then they seem to fail: a reduction in job instability is paid for by more long run unemployment and ultimately a higher unemployment rate (first page of Table 4). If one takes such crude cross-section regressions seriously — sophisticated economists and theoreticians do not,

Table 4: Are job regulations**LESS LABOUR MOBILITY.....**

Note : All the variables are derived from a special Labour Force Survey in 1989 by the European Statistical Office and from Emerson [1988]. For more detail see Boyer [1990b].

hurting efficiency ?

.....BUT MORE PRODUCTIVITY INCREASES

B. 1970 - 1980 JOB PRESERVATION LEGISLATION ENHANCES PRODUCTIVITY..

$$(1) \overset{\circ}{PR} = 1.6 + 0.64 \times IL \quad R^2 = 0.23 \quad (18 \text{ Countries})$$

(2.6) (2.2)

$$(2) \overset{\circ}{PR} = 1.6 + 0.02 \times G \quad R^2 = 0.54 \quad (9 \text{ European Countries})$$

(3.5) (2.9)

$(3) \overset{\circ}{PR} = 0.23 + 0.68 \times Q + 0.007 \times G$ <p style="text-align: center;">(0.8) (5.8) (1.7)</p>	$R^2 = 0.93 \quad (9 \text{ European Countries})$
--	---

....AND REAL WAGE INCREASES.

$$(4) \overset{\circ}{PR} = 1.4 + 0.03 \times G \quad R^2 = 0.72 \quad (9 \text{ European Countries})$$

(3.1) (4.3)

$(5) \overset{\circ}{RW} = 0.20 + 0.79 \times \overset{\circ}{PR} + 0.02 \times G$ <p style="text-align: center;">(0.4) (2.9) (2.0)</p>	$R^2 = 0.88 \quad (9 \text{ European Countries})$
---	---

WHEREAS TOO MUCH EMPLOYMENT FLEXIBILITY HINDERS PRODUCTIVITY

$$(6) \overset{\circ}{PR} = 4.7 + 0.09 \times IS \quad R^2 = 0.51 \quad (8 \text{ OECD Countries})$$

(6.0) (2.9)

but applied economists and decision makers usually do in their arguments — the legal constraints imposed upon employment decisions stabilized employment during the 1970s, but may have exacerbated unemployment.

Although the short run adjustments of labour markets may be adversely affected by these regulations, their impact upon long term growth seems to be favourable. Basically, in countries such as Germany, the legal constraints as well as the climate of industrial relations induce a careful use of permanent workers, and an interest of firms in investing to upgrade their skills, in order to foster quality-oriented innovations [Streeck, 1991]. In the Japanese case, no such legal obligation is binding, but the implicit compromise between managers and workers in large firms, as well as among major subcontractors, severely limits the ability of firms to reduce the employment of full time male workers. Consequently, management and workers share a joint interest in learning by doing, high investment, long term productivity gains and product innovations [Aoki, 1988]. If, on the contrary, the labour contract is essentially a spot transaction or at least is of short duration, firms will underinvest in the specific skills of workers, and will prefer redundancy to internal flexibility, employment reduction to product innovation.

A cross-section analysis does not contradict this hypothesis. First, in countries where firms perceive important constraints on their ability to hire and fire, productivity grows faster, even if one takes into account the possible existence of increasing returns to scale (equations 1, 2 and 3 in Table 4). Simultaneously, the bargaining power of workers is enhanced and consequently real wages grow faster in countries where the constraints upon jobs are severe, whether due to collective agreements or public regulations (equations 4 and 5). This second finding tends to support a theory which insists upon the opposition between insiders and outsiders in wage formation [Lindbeck and Snower, 1986]. Therefore, constraints upon firing have a double influence upon both productivity and wage formation, in accordance with exit-voice models: the protection of workers might induce more commitment and consequently better productivity results which are ultimately shared by wage earners. This introduces an important caveat with respect to the conventional vision, according which unions are simply capturing oligopolistic rents without any productive contribution, in line with the arguments put forward by Freeman and Medoff [1984].

Conversely, the economies with greater job instability seem to exhibit slower productivity increases (equation 6, Table 4). This suggests that there is a positive influence of collective agreements or regulations which limit such instability. The free functioning of labour markets does not always and necessarily imply an inducement for productivity increases. In

other words, the static efficiency provided by flexible labour markets might be a drawback in the search for long term competitiveness. It is sufficient to compare Germany, Sweden and Japan with the United States to get a idea of this possible conflict between two criteria in assessing the influence of labour market regulations.

It is important to note that these relations, which prevailed in the 1970s, apparently vanished during the 1980s [Boyer, 1990b], which underlines the need for an historical approach to the viability of any precise labour institutions. If competition becomes more acute, economic policies change and new forms of technological change emerge, then the previous set of labour regulations might become inefficient, in the short but also the long run. This is the issue of the coherence between various institutional forms.

2. *Minimum wages and complete welfare systems: Possible stimulation of technical change and labour mobility*

A similar trade-off seems to characterize most of the other components of the wage labour nexus, but of course the mechanisms are quite different (Table 5). Minimum wage policies aim to raise wages above their equilibrium level, which in the short run, *ceteris paribus*, will expand labour supply but reduce labour demand by firms. Many authors reject such measures, arguing that they disturb the smooth functioning of labour markets and are counterproductive in terms of both efficiency (more output could be produced) and equity (the better wage of employed workers is paid for by the unemployment of others). The argument has some truth but is too systematic in forecasting a negative outcome for any effort to raise wages above their equilibrium level.

On the contrary, modern theories of the labour contract deliver more ambiguous results: under some circumstances the outcome might be beneficial to society. At least four mechanisms can be identified which imply possible positive impacts of an appropriate minimum wage policy. First of all higher wages may induce more work intensity, commitment or loyalty and in some cases promote a reduction in unit production costs: efficiency wage theories conclude that the level of pay is an important determinant of productivity. If, due to institutional inertia or myopic behaviour, firms were not maximizing their profits because they were paying too low wages, then an exogenously determined increase may trigger a shift in management style.

Table 5: Laissez-faire or labour regulations ? Static versus dynamic efficiency

Type of regulation Impact upon	Termination of employment	Minimum wage	Welfare system	Training schemes	Union membership
Short run	1. Lagged adjustment of employment 2. Adverse impact upon profit 3. Possible stabilization of wage and consumption	1. Reduction of ine- quality 2. Exclusion of low productivity workers 3. Possible unemploy- ment	1. Reduction of ine- qualities 2. Increases of unit costs 3. Possible unemploy- ment	1. Extra cost for firms 2. Possible shift of labour demands	1. Less wage flexibility 2. Collective agreements against outsiders 3. Possible unemploy- ment
Medium-long run	1. Incentive to internal flexibility 2. Negative impact upon employment due to the cost of job regulations 3. Stimulation of technical change	1. More work intensity and commitment 2. Inducement of labour saving technical change 3. Upgrading of skills and product quality	1. Enhancement of labour mobility 2. Built-in stabilizers 3. Ingredient for social peace	1. Higher wage incomes over life cycle 2. More occupa- tional mobility 3. Skill driven technical change 4. Possible financial problems	1. Possible positive impact upon work organization and productivity 2. A powerful and large union can internalize the impact of wages upon employment 3. Voice possibly better than exit
Dynamic efficiency					

Second, according to one variant of these theories, a minimum wage hike which promotes more equity is able to induce greater efficiency at the firm level. By its nature the wage labour nexus is the locus of value judgments; consequently in labour markets fairness and efficiency are often closely related [Akerlof, 1984; Solow, 1990]. In some societies which have experienced a drastic reduction in income inequalities, including through minimum wage policies, productivity has been enhanced more than inhibited: Sweden in the 1930s and Japan and Taiwan (China) after the Second World War are good examples of a levelling of income disparities associated with an unprecedented surge in productivity and growth. It is now widely recognized, including by the World Bank, that income equality does not hurt growth — quite the contrary [1991, p. 137].

A third argument challenges the alleged invariance of the demand curve for labour in the face of a general increase in wages, resulting from a rise in the minimum wage which diffuses progressively to the rest of the wage structure. For instance, after May 1968 in France an impressive wage hike, given as a response to social protest, was associated with a boost in employment and in the real wage, at the cost of a moderate increase in the inflation rate. Low paid workers increased their consumption, and therefore expanded the demand addressed to an economy with substantial unused capacity. An equivalent move in 1981 did not deliver the same positive results; probably the demand regime had shifted from wage- and consumption-led to profit- and export-led. In any case, the viability of a wage labour nexus depends on its compatibility with the existing (or evolving) demand (and productivity) regimes.

Finally, even standard neoclassical theory can be used in order to contrast static with dynamic efficiency. In the short run, if supply and demand are not shifted by the macroeconomic consequences of a minimum wage increase, and if commitment and loyalty effects are small, a higher minimum wage will result in some unemployment. This is the static efficiency argument, which is widely used in the development literature to criticize minimum wage policies [Bauer, 1991; Lal, 1983]. But imagine now that innovation responds to relative prices and that firms modify the speed and direction of technical change in order to minimize costs. The literature on technical progress functions [Wan, 1971; Hahn and Matthews, 1964] shows that a labour-saving bias will occur in response to any alteration in the relative price in favour of labour, and in the long run the aggregates shares of wages and profit will remain constant. Thus, a growth path in which constraints upon the real wage are embedded will finally generate higher productivity. If the demand regime and the labour institutions are appropriate, a higher minimum wage economy will be in a better

position: the transitory acceptance of a short run disequilibrium ultimately delivers dynamic efficiency.

This argument is not totally abstract, since some Asian NICs have exhibited such virtuous long run dynamics. Did not Singapore's leaders promote substantial wage rises from 1979 to 1981 in order to push the economy to a higher technology level [Vogel, 1991; Tissier, 1981]? The issue has to be investigated carefully by sufficiently rich theoretical models and checked against the empirical data. The standard and static neoclassical model for the labour market cannot help very much in such an assessment, for it is too simple and one-sided.

A similar argument could be made about welfare systems (Table 5). Their financing usually increases production costs and so may have a negative impact upon employment if the related elasticity is important. But such systems may generate built-in stabilizers, if entitlements are determined independently of the financing mechanisms and if the net transfers go to the income groups with the highest propensity to consume. Still more, when the welfare system is rather complete and identical across sectors, firms and regions, then labour mobility is encouraged in comparison with a segmented welfare system with social rights exclusively linked to a given firm. Again, a possible short run cost is associated with a collective good which enhances the adaptability of the economy. The Swedish welfare system is a case in point: one of the more comprehensive, far from inhibiting mobility and technical change it has promoted innovation and the search for high value added jobs and industries.

3. *Static versus dynamic efficiency: The dilemma of labour institutions*

A systematic international comparison of labour regulations, wage formation, work organization and industrial relations [Boyer, 1990a,b,c] finally provides a synthetic outlook on labour institutions. They are not at all simple variations around a pure market adjustment, with more or less imperfections and frictions. Quite on the contrary, they define at least four configurations, with strong but distinctive complementarities among the components of the wage labour nexus (Table 6). Basically, all firms and industries have to solve similar short run and long run problems: how to react to unexpected sectoral and macro disturbances, and simultaneously how to cope with innovation in order to survive in the face of international competition. Given the partial contradiction between these two issues, each national economy finally constructs an original response, since there is no single best institutional design but a possible multiplicity, due to the

Table 6: Adjusting to variability and innovation: four national trajectories

Models Features	Decentralized defensive	Decentralized offensive	Social-democrat offensive	Hybrid
Institutional setting	<ul style="list-style-type: none"> ◦ Very decentralized bargaining ◦ Declining unions ◦ External and market oriented mobility ◦ Short run and adversarial strategies 	<ul style="list-style-type: none"> ◦ Compromise within large firms ◦ Weak unions ◦ Substantial internal mobility ◦ Long run and cooperative behavior 	<ul style="list-style-type: none"> ◦ Highly centralized collective bargaining ◦ Strong and unified ◦ Internal and collectively organized mobility ◦ Founding social democratic compromise 	<ul style="list-style-type: none"> ◦ Intermediate decentralization (sectors) ◦ Divided and declining ◦ Obstacles to internal mobility, involuntary external mobility ◦ Adversarial industrial relations
Adjustment variables	<ul style="list-style-type: none"> ◦ Lay-offs and employment adjustment ◦ Regional mobility ◦ Wage dispersion and average over 2-3 years 	<ul style="list-style-type: none"> ◦ Shift from job to job within the firm ◦ Retraining and polyvalence ◦ Bonus wage highly sensitive 	<ul style="list-style-type: none"> ◦ Retraining inside or outside the firm ◦ Subsidized job creation ◦ Average wage variability ◦ Dynamic innovation 	<ul style="list-style-type: none"> ◦ Mainly dismissals, limited internal retraining ◦ Unemployment benefits and subsidies for reconversion ◦ Relative wage rigidity ◦ Rationalisation bias
Employment management	<ul style="list-style-type: none"> ◦ Few jobs tenured ◦ High turnover ◦ Deepening of labour market segmentation 	<ul style="list-style-type: none"> ◦ Ideal of long run employment ◦ Low turnover ◦ Dual labour market but spill over effects from large firms 	<ul style="list-style-type: none"> ◦ Homogeneity of labour contracts ◦ Collectively organized mobility ◦ Active employment policy ◦ Full-employment commitment 	<ul style="list-style-type: none"> ◦ Ideal of job stability but multiplication of exception to standard contracts ◦ Low turnover ◦ Few active employment policies ◦ Increasing heterogeneity of labour contracts
Examples	UNITED STATES CANADA	JAPAN	SWEDEN AUSTRIA	FRANCE ITALY

Source : Boyer [1990b:39]

historical nature of organizations and institutions. Four major configurations emerge, each exhibiting both strengths and weaknesses.

The first is based upon largely decentralized labour markets interacting via migration, exit more than voice, employment reduction instead of reduction in hours worked. At the macro-economic level, significant competitive forces are present in the context of a long run decline of unions. The United States, Canada and in some respects the United Kingdom belong to this category. A largely external flexibility allows rather quick adjustments to unexpected shocks, which explains a moderate unemployment rate and the limited extent of long run unemployment. Similarly, the absence of any active public intervention upon minimum wages permits the creation of large numbers of low paid jobs, especially in the service sector. This static efficiency of the labour market has nevertheless some costs in the medium to long run: the heterogeneity of labour regulations across regions makes it profitable to shift industrial plants from old industrialized zones to new ones, rather than to adopt labour-saving devices in response to real wage increases.

The second and third configurations share a concern with offensive flexibility, in order to promote dynamic efficiency. The labour institutions are mainly designed to cope with product and process innovation, which supposes some degree of internal malleability of manpower within the firm, cumulative learning-by-doing effects and finally a form of employment security, either at the firm level (micro-corporatist Japanese model), or at the nation-wide level (social democratic model, for example in Sweden). The major strength consists in delivering structural competitiveness, through a permanent adaptation of the quality and the nature of products. Various indicators of modernization confirm this diagnosis. But the other side of the coin has to be mentioned: if a dramatic down-turn occurs, it takes some time for this configuration to cope with short run disequilibria, especially for the social democratic countries.

This striking similarity between two systems which are usually considered as opposites is confirmed by specialists of the Japanese firm [Aoki, 1988], and raises two theoretical issues. On the one hand, these two contrasted configurations deliver similar if not identical results, and consequently can be considered as *functional equivalents*. To get analogous results in different general institutional settings, the same components of the wage labour nexus do not have to be adopted. Conversely, the implementation of a subset of labour institutions, for instance job tenure, profit sharing or quality circles will not deliver the same results when the whole *régulation* mode is different. On the other hand, sociologists have pointed out a second principle, called institutional isomorphism [Powell and

DiMaggio, 1991]: institutions and organizations which are interacting have to be coherent with one another. Therefore, a similar flavour permeates most of the organizations of a given country: what has been observed for East Asian corporate firms is rather likely to apply to labour institutions in these countries. For OECD economies, the research under review clearly points to such a congruence among the components of the wage labour nexus.

A fourth, hybrid configuration prevails in European countries such as France, Italy and Belgium. On the one hand, the ideal of offensive strategies is embedded in industrial relations, education and training as well as in numerous public interventions, especially active minimum wage policy and a quite complete welfare system. But on the other hand, adversarial industrial relations, inadequate internal organization of firms as well as competition among firms simultaneously induce defensive strategies in line with the first model. Job reduction is preferred to in-firm training, reduced hours of work or wage adjustments, while product innovation and diversification are not conceived as methods for preserving high value added jobs. In this case, the isomorphism of labour institutions with the prevailing political and social organization seems to have prevented success in finding a functional equivalent to the micro-corporatist or social democratic model. This partially explains the mediocre performance of these European countries in world competition.

Finally, two broad conceptions of the wage labour nexus emerge [Boyer, 1990b]. The first involves defensive adjustments, such as the development of atypical labour contracts and sometimes the preservation of obsolete technology through low wages. This might be quite efficient in creating jobs and containing unemployment, but rising inequalities and poor productivity performance are usually the price to be paid for such short run flexibility. The second model develops a long term strategy based upon innovation, product quality and differentiation, which supposes quite different labour contracts based on long run commitment to the firm and a permanent modernization of organization and equipment. These two models deliver different trade-offs between short-run performance, social justice and technical change. This cross-section analysis confirms the major conclusion derived from the historical study: labour institutions are important for growth, competitiveness and employment.

V. The method applied to developing countries: A variety of regimes changing through time

Most of the research within the *régulation* approach has dealt with advanced industrialized countries, such as the United States, Europe and more recently Japan. Given the emphasis upon a rather detailed analysis of the major institutions which shape the growth regimes, most of the results are *a priori* specific to the national cases studied. One of the core hypotheses is precisely that there exists no general growth model which would explain both the chronology observed in each country and the differences between nations. Nevertheless, the key concepts and the method are fairly general and have actually been extended to developing countries, with a special focus upon the reasons for the development or underdevelopment of major Latin American economies. Let us briefly summarize the major findings and then propose some hypotheses in order to capture the similarities and differences with Asian economies.

1. In spite of some mimicry, developing countries exhibit rather specific labour institutions

In most of the literature, the labour markets of developing countries are assessed with respect to the models of purely competitive markets. As a result, many of the institutional devices such as minimum wage policies, job regulations or protective labour laws are interpreted as perturbations of the otherwise self-equilibrating mechanism of supply and demand [Lal, 1983; Bauer, 1991]. The *régulation* approach challenges this vision, for both theoretical and empirical reasons. First of all, historical experience (for example in France after 1789, and in Brazil or the Republic of Korea more recently) suggests that even competitive markets are socially constructed, including the application of repressive legislation by the State in order to curb the bargaining power of workers. More basically, modern economic theory repeatedly finds that markets are efficient only when clear rules of the game are enforced concerning the fulfilment of contracts and the quality of the goods delivered. This is especially true for labour markets which necessarily involve a minimum of stratification by skill, and a minimum degree of fairness. Still more, collective agreements and state regulations are not at all exogenous to the economic and social process of development but are part of the institutional changes initiated in response to major crises, whether political or financial and economic. Once implemented, regulations may or may not be accepted, and they may or may not turn out to be compatible with the previous pattern of economic develop-

ment, in such a manner that a selection process takes place which adjusts both the economic *régulation* and the institutional setting.

This broad vision is shared by a number of authors who have investigated the long term evolution of some Latin American countries such as Chile, Mexico, Venezuela, Brazil, Peru and Argentina. A short synthesis (Table 7) is given here, since it might shed light on some of the issues concerning the Asian NICs. Some similarities, but still more many specificities, emerge with respect to the relation between labour institutions and the growth regimes.

One of the very first studies on developing countries was devoted to Chile [Ominami, 1980]. It showed a striking parallel with the transformations observed in Europe: political evolution leads to an early institutionalization of the wage labour nexus and therefore progressively circumscribes the previous competitive wage mechanisms. Similar events took place in Mexico, a country in which a particular political organization led to early and important interventions of the State in wage formation and unionization [Gutierrez-Garza, 1983]. Argentina is an example of the quasi-emergence of a Fordist wage labour nexus, very early and quite simultaneously with the European countries [Miotti, 1991]. Clearly, there is some mimicry in the transformations of the labour institutions of these countries.

A closer investigation suggests that these similarities do not capture some important features of labour institutions in Latin American countries. Four specificities emerge from this literature, more or less in accordance with more conventional analyses of underdevelopment. Basically, the type of *integration in the international economy* plays a crucial role in shaping many domestic institutions. The fact that the Chilean economy relied upon exports of primary products, especially copper, generated large fluctuations which undermined the objective of stabilizing wage earners' incomes, in particular in the mining sector [Ominami, 1980]. Similarly, the quasi-exclusive dependence of the Venezuelan economy on exports of oil have made the institutionalization of labour more important in the public sector than in the tiny manufacturing sector [Hausmann, 1981]. Argentina and Peru provide two other examples of these strong interactions between the fate of labour institutionalization and the prosperity of an agricultural exporting sector. In some periods, the domestic adjustments associated with the fluctuations of the world economy have been so severe as to totally destabilize previous labour legislation [Hillcoat, 1986] and sometimes triggered the development of a large informal sector [Huanacune Rosas, 1991].

Technological dependency is often the consequence of this kind of integration in the international economy. In Mexico and Brazil, industrialization first took place in the consumer goods sector, often with the contri-

Table 7: Specificities of labour institutions and impact upon the growth of some Latin American countries: Some results from "régulation" approaches

Countries, periods and authors	Labour and other institutions	Impact upon growth regime
CHILE (1932-1985) Ominami [1980][1986]	<ol style="list-style-type: none"> 1. Early institutionalization of the wage-labour nexus (1920) 2. Importance of mining 	<ol style="list-style-type: none"> 1. Stabilization of consumption but pressure upon profits 2. Primary product export model
MEXICO (1939-1985) Godínez [1982] Gutiérrez-Garza [1983] Aboites [1986]	<ol style="list-style-type: none"> 1. Strong State interventions and advanced labour laws 2. Specific institutions for agriculture 3. Role of the informal sector 	<ol style="list-style-type: none"> 1. Mitigation of competitive mechanisms 2. The dynamism of agriculture allows equipment imports (until 1965)
VENEZUELA (1943-1981) Hausmann [1981] Hausmann and Marquez [1986]	<ol style="list-style-type: none"> 1. Collective agreements, minimum wage and significant institutionalization for regular workers 2. An informal sector exhibits competitive wage adjustments 3. State expenditures, money creation and investment are driven by the export of oil rent 	<ol style="list-style-type: none"> 1. Relative stabilization of urban consumption 2. Transmission of shocks from the modern to the competitive informal sector 3. Clear dependency on the world oil market and genuine adjustment processes
BRAZIL Cartier Bresson & Kopp [1981] Coriat, Saboia [1987] Saboia [1991]	<ol style="list-style-type: none"> 1. Public regulations and collective agreements in the industrial sector 2. Much heterogeneity in the wage-labour nexus 3. Large size of the informal sector 	<ol style="list-style-type: none"> 1. Dynamism of the modern industrial sector and incomplete intensive growth regime 2. Role of inequalities in demand stratification 3. Strong competitive mechanisms
PERU (1970-1985) Huanacune Rosas [1991]	<ol style="list-style-type: none"> 1. Importance of the informal sector 2. Its dual role in wage formation and consumption 	<ol style="list-style-type: none"> 1. Possible functionality of the informal sector 2. Strong competitive mechanisms
ARGENTINA (1900-1980) Hillcoat [1986] Miotti [1991]	<ol style="list-style-type: none"> 1. Early institutionalization of the wage-labour nexus 2. Importance of agricultural production 3. Softening of competitive mechanisms, except after 1976 	<ol style="list-style-type: none"> 1. Failed implementation of an intensive growth regime 2. Adverse impact of the loss of dynamism of agricultural exports 3. Succession of contrasted growth regimes

bution of foreign capital and/or technologies. When most Latin American economies reacted to the interwar depression with an import substitution strategy, they began to progressively master some areas of modern technology. Nevertheless, it turned out to be quite difficult to continue this strategy for capital goods [Ominami, 1986; Hausmann and Marquez, 1986], even though Argentina succeeded in producing quite sophisticated capital goods [Miotti, 1991] and Brazil recently tried to build a purely domestic computer industry [Palagano Ferrari, 1992]. This technological specificity has a definite role in most developing countries. On the one hand, the skill distribution cannot be the same as in developed countries and consequently the wage labour nexus is built upon low or average industrial skills which might be incompatible with early institutionalization of labour. The latter might well be inconsistent with the prevailing production specialization, with weak workers' organizations, or with the inability of the State to monitor and control the application of advanced labour legislation. On the other hand, the productivity regime is based upon foreign technology and capital, as well as on conventional domestic factors. Clearly, these considerations are important in explaining the balance between success and failure in industrialization strategies.

The Mexican case exemplifies a third feature of Latin American labour markets: most of the working population is engaged in *the agricultural sector*, which consequently is quite important in the functioning of labour markets, including the urban ones [Godínez, 1982; Aboites, 1986]. Therefore, agriculture can either retard or promote industrial development, via the evolution of the relative price of food, the contribution of agricultural exports to the financing of imports of consumer and capital goods, and the contribution of the agricultural population to the demand regime. From a theoretical point of view, the industrial bias implicit in the *régulation* approach has to be corrected by a more explicit formalization of the linkage between agriculture and industry.

Finally, the studies of Latin American labour markets have pointed out that the institutionalized wage labour nexus only represents a part of total employment: the *informal sector* plays a determining role in partially compensating for the disequilibria generated within the urban formal employment sector [Tokman, 1989]. This is a serious difficulty for a framework which insists upon the legal and institutional side of employment relations, but this challenge has recently been addressed by Huanacune-Rosas [1992]. The informal sector has three major impacts:

- Firstly, wage formation is more competitive in economies where a large pool of disguised unemployment is found in the informal sector,

in so far as the skills of the workers are really the same. It seems that in the Peruvian case, the average wage is finally quite dependent on the fluctuations in informal employment. Thus, a degree of institutionalization of the wage labour nexus can be weakened and in some cases nullified by the countervailing impact of the informal sector.

- Secondly, productivity can be counter-cyclical, since employment and income are shared in this sector. Consequently, the informal sector plays the role of a surrogate unemployment insurance: the workers who are unable to get into the formal sector nevertheless get a job, even if their income is quite minimal. For some specific trades (including illegal ones), the incomes generated may be relatively high but highly variable or uncertain. The aggregate impact upon the welfare of the society is therefore ambiguous. A contrario, any specific institutionalization of labour might have either a positive or a negative impact.
- A third mechanism concerns the demand regime: the informal sector may produce wage goods or even intermediate goods and thus have positive effects upon standards of living and firms' productivity. Depending on the distribution of total consumption across formal and informal production, the fluctuations generated by the export sector can be mitigated or on the contrary exacerbated by the presence of the informal sector.

All these features are currently being studied by a network of researchers involved in the extension of the *régulation* approach to developing countries. Nevertheless, the first generation of studies has already delivered two major findings, which will now be briefly presented.

2. Five broad development modes: Institutions and structures matter

Quite intuitively, adding up all these specific institutional forms and economic mechanisms delivers a series of configurations, rather than a single one which would be an approximation of the growth model which is operating in the core industrialized countries. In this respect, the current approach strongly supports the idea that the stages of past capitalist development do not point to the path which will be followed by contemporary industrializing countries. Contrary to the initial hope expressed by Rostow, the very development of the first generation of industrialized countries is preventing their followers from adopting precisely the same strategy [Oswald, 1991]: other paths have to be looked for, and frequently copying

a model finally leads to hybridization and in some cases to inventing a new one. Japan and the Asian NICs are good examples of such a process.

The *régulation* approach has delivered a general, even if provisional characterization of the successive accumulation regimes observed in advanced capitalist countries since the early nineteenth century (Table 8). The nature and the succession of these growth patterns have potential relevance for the process of regime change in contemporary developing countries. First, extensive accumulation is not without similarities with industrialization in some NICs: rapid structural changes, low bargaining power of workers, numerous state interventions in favour of industry and, generally speaking, few institutionalized compromises characterized the first industrial revolutions in Europe. Nevertheless, innovations and productivity gains are now far more important than during the nineteenth century, which is related to the international diffusion of new technologies. Therefore, some rapidly industrializing countries have features reminiscent of the Taylorist revolution which took place in the United States and Europe in the beginning of this century: fast structural transformations and growth might be associated with a limited sharing of the benefits of industrialization among the workers themselves [Lipietz, 1985]. This could suggest that a central issue in these NICs might be the search for a capital-labour compromise which would make the growth regime less dependent on exports, but more centred upon the consumption of workers [Coriat and Saboia, 1987 for Brazil; You, 1990 and his chapter in this volume, and You and Chang, 1991 for South Korea].

The third regime in Table 8 is precisely centred upon the conjunction of mass production and consumption, and started after the Second World War in OECD countries. It was generally associated with a complete redefinition of most institutional forms: reductions in inequalities, development of the welfare state, new objectives and tools of monetary policy, substantial investment in public infrastructure... If some parallel could be drawn with the situation of contemporary Asian NICs, this would mean that a significant degree of institutionalization would be needed, or at least strong incentives, in order to trigger the adoption of this more domestic led regime. Market mechanisms may be powerful in allocating resources within a given regime, but they are not necessarily sufficient to promote the adoption of a new growth regime nor to guide such a change: at some crucial periods, the strategic orientation of policy matters.

The last regime has been observed mainly in the United States since the mid-1960s: the sources of productivity gains seem to have been exhausted, and ultimately the pursuit of growth is then based upon employment and hours of work, and not so much upon real wage increases.

Table 8: Growth regimes for some industrialized countries

	<i>Extensive Accumulation</i>	<i>Intensive Accumulation without Mass Consumption</i>	<i>Intensive Accumulation with Mass Consumption</i>	<i>Extensive Accumulation with Mass Consumption</i>
<i>Production organization</i>	Simple cooperation : Low rate of productivity growth	Taylorist restructuring of production, big productivity increases	Fordist deepening of mechanism, even higher productivity gains	Exhaustion of Fordism and previous sources of productivity gains
<i>Time horizon for capital formation</i>	Short, because subject to immediate validation by the market	Slightly longer, due to greater capital intensity	Multi-year, validation of investments occurring over their expected duration	Shortens, due to economic instability and major uncertainties
<i>Income distribution (wages, profits, deductions)</i>	Governed by the short- run phases of the accumulation process	Attenuation of wage reductions	Contractualization of direct and indirect wages	Institutionalized pattern of distribution challenged
<i>Composition of Social demand</i>	Capital formation plays the motor role, final consump- tion a secondary one	Consumption diffused more widely, investment remains preponderant	Simultaneous dynamic linking of consumption and investment	Previous tendencies and patterns break down
<i>Articulation with other relations of production</i>	Workers reproduced outside of capitalism (petty production, family, etc...)	Slow insertion of workers into wage labour, interna- tional relations playing a key role	Workers depend on wage labour for reproduction, modification of needs accompanying interna- tionalization	Restructuring of relations with interna- tional and domestic economies
<i>Examples</i>	France (first half 19th century)	U.S., France (between wars)	Europe, U.S. (after 1950)	U.S. (since Mid 1960s)

Source : Boyer [1990a]

This is quite likely a structural change and not simply the consequences of lags in adjusting to the international economy [Boyer and Juillard, 1991]. This delivers an important message: every growth regime has finally ended up in structural crisis or at least exhaustion. A given set of institutions is efficient in promoting growth only for a certain period of time, and there does not seem to exist such thing as a panacea, i.e. a perfect system promoting unlimited growth. One of the requisites for a new regime is precisely to mitigate the disequilibria and contradictions which emerged from the previous one and destroyed it.

Consequently, a genuine taxonomy has to be built in order to capture the diversity in the national trajectories observed in contemporary developing countries [Table 9, largely inspired by Ominami, 1986 and Lipietz, 1985]. The five regimes result from variations in the degree of industrialization (pre-industrial configuration), and in the sources of exports, public spending and income (the *rentier* following the model of oil producing countries). For the industrialized economies, the dynamics of which are set by the manufacturing sector, three different regimes can be distinguished according to the respective role of the domestic market (inward-looking industrialization), of exports (Taylorist outward-oriented regime) and finally the combination of these two orientations (mixed regime).

If this analysis is correct, it would be misleading to consider that the same model is operating in each case: either the results would be so general that they would be meaningless, or they would be erroneous since one would extrapolate from one configuration to another. This is a strong argument in favour of a structuralist approach to macromodelling in the developing world [Taylor 1983; 1991]: intermediate between theoretical and purely applied modelling, this approach is designed to take into account any relevant structural feature of developing economies. Note the sharp contrast with the grand vision of the new endogenous growth theorists.

3. *By their inner dynamics, growth regimes are transforming themselves in the long run*

If there exists a multiplicity of regimes, then one regime may evolve through time: this happened for the core industrialized countries over two centuries (see table 8 above). The existing research on Latin American countries shows the same results and this has definite consequences for some contemporary controversies, which abusively extrapolate as general and universal truth what has been observed during the last decade.

Table 9: Contrasted growth regimes

	<i>Pre-Industrial</i>	<i>Rentier</i>
<i>Production organization</i>	Traditional in agriculture diversified in the export sector	Marginality of industry, Taylorism and Fordism
<i>Time horizon for capital formation</i>	Conditioned by insertion in the international economy ; no intersectoral coherence of national economy	Long in certain sector including large projects (oil, industry)
<i>Income distribution (wages, profits, deductions)</i>	Opposition between agriculture and rest of the economy	Circulation of rents shapes evolution of other revenue
<i>Composition of social demand</i>	Dichotomy between investment circuit and traditional consumption	Imports close circuits of investment and consumption
<i>Articulation with other relations of production</i>	Capitalist relations in export sector the exception	Rentier relations dominate the logic of capitalism
<i>Examples</i>	Majority of sub-Saharan African countries	Saudi Arabia, Venezuela

for contemporary developing countries

<i>Inward-Looking Industrialization</i>	<i>Outward-Looking Taylorism</i>	<i>Mixed</i>
Low rate of productivity growth, extensive accumulation	Taylorist or Fordist through delocalization of centre's labour process	Bases of intensive accumulation, persistence of traditional agriculture
Short/medium term linked to the protection of the domestic market	Rather long-term through strategies of backward linkages	Stabilized by a relatively protected internal market
No link between real wages and productivity	Free management of the labour force, dynamic growth of profit	Profit favoured by isolation from international competition
Investment and consumer durables rely on imports	Exports lead demand, especially final consumption	Limitation of durable goods production by income distribution; dependence of investment on external sources
Relations with the peasantry and international markets	Articulation with international economy essential	Possibilities of pre-capitalist agriculture and oil rent
Colombia (1960s and 1970s), Peru	Republic of Korea Taiwan (China), Thailand	Brazil, India, Mexico

Currently, the consensus is that state regulations do not help in promoting industrialization and that outward-looking strategies are the only options for developing countries [Summers and Thomas, 1992]. A review of the dynamics of Mexico, Argentina or Brazil over this century will help to counter such a misrepresentation.

For example, it is now quite forgotten that the partial isolation from the world market, the constitution of a large public sector and the search for import substitution-led growth delivered impressive results for the Mexican economy [Aboites, 1986] and Brazil [Coriat and Saboia, 1987]. Back in the 1930s, even Argentina was able to modernize and industrialize during an extended period, via a highly regulated economy and the search for home grown technologies [Miotti, 1991]. For example, the large decline in the share of capital goods in total imports shows that this process might nowadays be perceived as inefficient, but was quite effective in creating new industries at least until the 1960s. The conventional argument against inward looking industrialization is relevant only when the process is pursued in spite of increasing costs in relation to benefits, possibly because this strategy is then embedded in economic interests and institutions and defended within the political arena.

The same process has seemingly taken place in Mexico and Brazil, but according to different mechanisms and institutions. For example, in 1965 the investment rates of these countries were not so dissimilar to those in the newly industrializing Asian countries. Even up to the end of the 1970s, the expectations of the financial community about the prospective growth of Brazil and Mexico on the one hand, and the Republic of Korea and Taiwan (China) on the other, were identically optimistic... which indicates that the past performance was not so bad, quite on the contrary. The error was to extrapolate *ad infinitum* a feature which was valid for a limited period of time. The lack of any historicity in most conventional modelling of development then could well be the Achilles' heel of this area of research.

Therefore, there is a clear sequence in the succession of growth regimes. They usually emerge by trial and error in the search for an alternative to the previous institutional setting, when the latter is experiencing a structural crisis. If successful, the new principles diffuse themselves and progressively impose their logic on the whole mode of *régulation*. Economists often fall into the fallacy that these economic mechanisms will last for ever and that they are somehow "natural". But this is precisely the period when the very success of the strategy generates a new set of problems which can no longer be handled within the existing institutional setting. Conversely, when the decay of previous regularities is evident for

everybody, theoreticians and policy makers frequently shift towards a very critical analysis of the previous regime, totally forgetting its past, limited but evident, merits. The *régulation* approach suggests that this kind of process should be at the centre of the research agenda.

To be complete, another configuration for the structural crisis of a regime has to be mentioned, and the Venezuelan case provides an enlightening example [Hausmann and Marquez, 1986]. The economic institutions of this country were largely modelled by the distribution of oil rents, most of them resulting from sales on the world market. Of course, the inner strategy of import substitution was progressively running into trouble in any case, but structural crisis was brought on by the rapid shift in the price of oil, both when it increased and generated too much and inefficient investment, and when it finally collapsed inducing severe budget cuts and monetary contraction. *Mutatis mutandis*, the large rise in the real interest rate in the 1980s played the same role for Brazil, Mexico and Argentina, exacerbating their internal problems. In short, there is no perfect national mode of *régulation*, which would be optimal in any circumstance and whatsoever the evolution of the international system. Again it is a teleological mistake to then accuse the designers of economic institutions of structural misconception: these arrangements may well have been perfectly satisfactory when they were conceived or emerged.

It is time to derive some preliminary hypotheses about the development of Asian countries: is this governed by the same mechanisms as those found in Latin America, and if it is different, what role is to be attributed to labour institutions?

VI. The Asian countries: The next frontier for "régulation" approaches

Only a few studies within the *régulation* school have been devoted to Asian countries [Tissier, 1981, 1983; Lipietz, 1985]. Consequently, the ideas expressed in this section are still more tentative than the previous ones and rely upon a limited knowledge of the huge literature on Asian development [Chang, 1987; Deyo, 1987; Fields, 1990; Gereffi and Wyman, 1990; Hillcoat and Lanzarotti, 1989; IREP-D, 1988; Lanzarotti, 1992; Watanabe, 1992; Vogel, 1991; Wade 1990]. Their only merit is to initiate a dialogue with Asian colleagues and development economists. Three major hypotheses are to be tested, just to follow the themes developed for Latin American countries.

1. *The Asian NICs: Evidence for the superiority of outward-looking strategies?*

In order to compare the two regions, a data set has been built which captures some key structural and institutional variables for the period 1965-1989, with a special emphasis on the 1980s. Ten countries have been selected for Latin America (see Table 12) and an equal number for Asia (Table 13). Of course the countries in both samples are quite diverse and it might seem daring to compare Latin America and Asia as a whole. Nevertheless, this crude comparison may challenge some conventional interpretations and help in framing some hypotheses to interpret the differences across countries (see section 3 below). Summary characteristics are given in Table 10.

- During the 1980s, *economic performance* has been impressive for most Asian countries: on average, GNP per capita experienced a 4.7 per cent growth rate, there were large productivity increases in the manufacturing sector (5 per cent), and this allowed fast real wage increases (4 per cent). Simultaneously, exports grew still faster than GNP growth (8.7 per cent). By contrast, Latin America exhibited quasi-stagnation during the same period: GNP posted an increase of 0.5 per cent per year, productivity slightly declined (-0.25 per cent) and so did the real wage, still more significantly (-1.7 per cent). Thus one observes a *virtuous circle* of growth, productivity increases, investment, consumption and exports on one side, and a *vicious circle* of quasi-stagnation, limited productivity gains, reduction in investment and stagnation of consumption, not compensated by a limited rise of exports, on the other. This opposition has to be explained.
- Surprisingly enough, this is not just the impact of *differences in human capital*: welfare indicators, such as life expectancy, adult illiteracy and the share of public expenditure devoted to health and education deliver quite similar ratios or indices. Still more surprisingly, back in 1965, the share of gross investment in GDP was roughly similar for the average of each region and the share of machinery and equipment in manufacturing production was not so dissimilar, which suggests that no clear technological gap was observed between, for example, Korea and Mexico or Brazil.
- The most striking difference relates to the *relative investment rates*: quite similar in 1965, they declined for Latin America, while they increased by 50 per cent in Asia. This quite conventional factor explains more than 73 per cent of the variance in growth rates (Table 11). Had

Table 10: What structural differences between Latin America and Asia ?

	Latin America	Asia	
1989			
Life expectancy	67 years	68 years	Welfare indexes 1989
Rate of illiteracy	13.2 %	21.2 %	
Share of Education and Health in public spending	19.0 %	19.2 %	
Share of Education and Health in GDP	3.1 %	3.3 %	
GNP per capita in 1989	1,775 \$	7,170 \$	
Rate of growth GNP 1980-1989	0.5 %	4.8 %	Macroeconomic performance 1980-1989
Manufacturing	0.5 %	6.5 %	
Exports	2.9 %	8.7 %	
Consumption	1.1 %	5.1 %	
Investment	- 5.4 %	3.6 %	
Real wage	- 1.7 %	4.0 %	
Unemployment rate	9.8 %	4.4 %	
Share of industry in GNP	24.4 %	25.5 %	Investment and Technical change 1965-1989
Investment rate (/GNP)			
. 1965	19.5 %	19.9 %	
. 1989	16.9 %	29.0 %	
1989/1965	- 2.6 %	9.1 %	
Rate of growth in manufacturing 1980-1989			
. Output	0.5 %	6.5 %	
. Productivity	- 0.25 %	5.0 %	
Exports			External trade and specialization 1965-1989
. Share in GDP			
1965	15.0 %	35.6 %	
1989	22.8 %	58.1 %	
1989/1965	+ 7.8 %	22.5 %	
. Share of manufacturing goods in total exports			
1965	5.6 %	24.4 %	
1989	22.2 %	68.0 %	
. Share of machinery and equipment in total exports			
1965	0.5	5.7 %	
1989	5.7	23.7 %	
1989/1965	+ 5.2 %	+ 18.0 %	

Note : Unweighted average for ten countries in each region. See tables 12 and 13 for sources and countries. Weighted would significantly modify the Asian figures, because of the size of the Japanese economy and of India's population (China is not included).

Latin America been able to push its investment rate up from 16.9 per cent to 29.0 per cent (i.e. the average Asian level), the yearly growth rate would have been higher by 3.6 per cent, whereas the observed difference is about 4.2 per cent. These simple estimates confirm the conclusions derived from more systematic econometric studies with far larger samples: the investment rate is one of the key factors explaining economic growth differentials [Bradford de Long and Summers, 1991; Amable, 1993].

- A second difference concerns the *role of exports*. On average, Asian NICs have exported a larger share of manufacturing goods than the Latin American countries: whereas the share of manufacturing in GDP is on average roughly the same (25 per cent), the share of manufactured goods represents respectively 58 per cent of total exports in Asia but only 23 per cent in Latin American countries. During the period 1980 to 1989, the elasticity of GNP with respect to exports turns out to be around 0.5 (Table 11). Thus the unequal export performance between the two regions may explain slower growth in Latin America by 3.6 per cent per annum.
- The relative dynamism of the *manufacturing sector* seems to be at the core of growth performance. For the 1980s, 82 per cent of the variance of growth rates is explained by the evolution of the manufacturing sector. Many other statistical indicators confirm the key role of this sector: the rising share of manufacturing in GDP, the substitution of raw materials by more and more sophisticated industrial goods, the emergence of dynamic increasing returns to scale (see Annex 4). Such a process took place in some Latin American countries during the 1960s and 1970s, but was halted in the 1980s. On the contrary, it has matured and accelerated in Asian NICs during the last decade [Wade, 1990]. This suggests that this is not a mere and automatic catching up process. Everything depends on the initial productive structures, human capital resources [Amable, 1993; Verspagen, 1992] and some strategic choices during certain decisive periods.

Consequently, one gets the impression that the explosive industrialization process of Asian NICs has followed a quite conventional path: investing more and more in order to capture all the learning effects which are associated with fast growth. But the novelty is that in contrast to Mexico, Brazil or Argentina, the process was governed quite early on by the search for competitive advantage upon world markets. Having built production capacities and expertise since the 1970s, the Republic of Korea, Hong

Table 11: What discriminates between Latin American and Asian countries? 1980-1989
Some simple tests

<i>I. Latin America</i>	<i>II. Asia</i>	<i>III. Whole sample</i>
1. A more export led growth ?		
$\dot{Q} = 0.16 + 0.21 \cdot \dot{X}$ (0.3) (2.2)	$\dot{Q} = 1.74 + 0.47 \cdot \dot{X}$ (1.9) (4.1)	$\dot{Q} = 0.3 + 0.51 \cdot \dot{X}$ (0.4) (4.9)
$\bar{R}^2 = 0.31$	$\bar{R}^2 = 0.64$	$\bar{R}^2 = 0.55$
2. A lower investment rate ?		
$\dot{Q} = -2.1 + 0.18 \cdot I/Q$ (1.6) (2.4)	$\dot{Q} = -2.8 + 0.28 \cdot I/Q$ (1.0) (2.8)	$\dot{Q} = -3.9 + 0.30 \cdot I/Q$ (3.9) (7.3)
$\bar{R}^2 = 0.35$	$\bar{R}^2 = 0.43$	$\bar{R}^2 = 0.73$
Variables: \dot{Q} (growth rate), \dot{X} (export growth rate), I/Q (investment rate)		

Kong and Singapore were in a better position when the world economy became more uncertain and competition fiercer [Gereffi, 1988]. On the contrary, Latin American countries had to promote their exports from the starting point of a mixed growth regime, in which import substitution still represented an important fraction of production growth.

These hypotheses could be applied to pairwise comparisons between countries (Tables 12 and 13). For example, in 1965, Brazil and Korea had similar export/GDP ratios (8 per cent), whereas the Latin American country was investing more (20 per cent against 15 per cent). Twenty-five years later, the difference in pattern becomes clear enough: Brazil has still a low degree of openness (7 per cent) and increased its investment rate modestly to 22 per cent. By contrast, the share of exports jumped to 34 per cent in Korea, while the investment rate reached 35 per cent. Clearly, a cumulative upgrading of technological performance, an export boom and high investment have displayed strong complementarities in Korea, but not so much or not at all in Brazil: the share of machinery and transport equipment in total exports represented respectively 20 per cent and 38 per cent in 1989.

Then comparing Mexico and Philippines shows how contrasting situations might be found within both regions, and that some relative failures might be common: for both countries a decline in the investment rate prevented them from capturing the opportunities of the world economy.

Thus, in the 1980s (but this was not so clear in the 1970s) the Asian NICs have worked out a quite efficient strategy based on heavy investment in order to climb up the technological ladder and export more and more advanced industrial products. Latin American economies were unable to boost their investment, or to sufficiently develop their internal market in order to compensate for the rejection of a clear outward-looking strategy.

But this gap between successful and unsuccessful countries has to be explained a step further: do labour institutions play any role?

2. *The role of wage formation in the success of an export led growth regime: A theoretical model and some paradoxical results*

The question is then to investigate under which conditions a stable, outward-oriented strategy can exist, and more particularly to assess if competitive mechanisms are necessary for such a successful path. Bertoldi [1989, 1991] has adapted the general model of Annex 1 to the context of exporting economies such as Taiwan (China) and the Republic of Korea (Annex 3). Basically, the formalization captures the idea that the exporting

**Table 12: Structural conditions for development and major macroeconomic and industrial outcomes:
Selected Latin American countries**

	STRUCTURAL CONDITIONS				MACROECONOMIC RESULTS								
	Growth rate of food/capita 79-81 to 87-89 (%) (years)	Life expectancy 1989	Adult illiteracy 1985	Share of public expenditure on health and education /public expend. 1989 (%)	Rate of growth of investment 80-89 (%)	GNP per capita 1989 Growth 65-89 \$ (%)	Rate of growth GNP 80-89 (%)	Growth of exports 80-89 (%)	MANUFACTURING				
									Growth of output 80-89 (%)	Pro-ductiv-ity 80-88 (%)	Real wage 80-88 (%)	Un-em- ploy- ment rate 1989 (%)	Share of ma- chine- ry and equip. 1988 (%)
Argentina	- 1.2	71	5	11.3	1.75	- 7.8	2,160 -0.1	- 0.3	0.6	2.8	1.4	7.3	14
Bolivia	0.2	54	26	29.9	4.52	- 11.6	620 -0.8	- 0.9	- 0.8	- 12.7	- 10.3	25.0	1
Brazil	1.4	66	22	10.3	3.15	0.7	2,540 3.5	3.0	5.6	1.9	0.0	2.4*	21
Chile	0.8	72	6	16.0	5.20	2.7	1,770 0.3	2.7	4.9	n.a	- 1.7	5.3	4
Ecuador	0.7	66	18	33.2	4.71	- 3.2	1,020 3.0	0.4	0.4	0.1	- 1.3	8.0	7
Mexico	- 0.2	69	10	14.0	2.97	- 5.0	2,010 3.0	0.7	3.7	1.3	- 5.2	n.a	13
Paraguay	1.8	67	12	14.4	1.28	- 1.9	1,030 3.0	2.2	7.0	n.a	n.a	n.a	n.a
Peru	0.1	62	15	21.1	2.45	- 4.5	1,010 -0.2	0.4	0.4	- 5.0	- 3.0	8.2*	11
Uruguay	0.7	73	5	12.4	3.20	- 7.9	2,620 1.2	0.1	2.8	3.3	1.0	9.1	10
Venezuela	- 1.6	70	13	30.3*	1.67	- 3.8	2,450 -1.0	1.0	11.3	7.8	0.1	8.6	11

Source: World Development indicators in World Bank [1991]. * 1986; ° 1972

**Table 13: Structural conditions for development and major macroeconomic and industrial outcomes
Selected Asian countries**

	STRUCTURAL CONDITIONS			MACROECONOMIC RESULTS											
				GNP per capita 1989 Growth 65-89 \$ (%)	Rate of growth GNP 80-89 (%)	Growth of exports 80-89 (%)	MANUFACTURING								
	Growth rate of food/ tancy capita 79-81 to 87-89 (%)	Life expectancy 1989 (years)	Adult illite- racy 1985 (%)				Share of public expenditure on health and education /public /GNP expend. 1989 (%)	Rate of growth invest- ment 80-89 (%)	Growth of output 80-89 (%)	Pro- ducti- vity 80-88 (%)	Real wage 80-88 (%)	Un- em- ploy- ment rate 1989 (%)	Share of ma- chine- ry and equip- ment 1988 (%)		
Hong Kong	- 6.0	78	12	n.a	n.a	3.0	10,350	6.3	4.0	6.2	6.2	n.a	4.0	1.1	22
India	1.5	71	57	4.4	0.8	4.5	340	1.8	5.3	5.8	7.3	7.6	3.8	n.a	27
Indonesia	2.7	61	26	11.8	2.4	6.8	500	4.4	5.3	2.4	12.7	8.4	6.3	n.a	3
Japan	- 0.4	73	0	n.a	n.a	5.7	23,810	4.3	4.0	4.6	6.7	3.5	2.0	2.3	38
Korea	- 0.5	70	-	20.4	3.4	11.6	4,400	7.0	9.7	13.8	13.1	8.4	5.5	2.6	32
Malaysia	4.5	70	27	n.a	n.a	1.3	2,160	4.0	4.9	9.8	8.0	n.a	4.3	n.a	23
Philippines	- 1.9	64	14	21.4	3.4	- 7.8	710	1.6	0.7	1.3	0.5	2.8	5.4	8.4	9
Singapore	- 1.9	74	14	24.2	5.6	2.8	10,450	7.0	6.1	8.1	5.9	2.5	5.0	2.2	52
Sri Lanka	- 1.8	71	13	16.7	5.0	- 0.7	430	3.0	4.0	6.7	6.2	3.8	0.7	n.a	1
Thailand	0.5	66	12	25.6	3.9	5.7	1,220	4.2	7.0	12.8	8.1	5.1	6.0	2.6	13

Source: World Development indicators in World Bank [1991]

sector is obtaining larger productivity increases than the rest of the economy, due to the competition observed at the world level, the cumulative causation effect and of course the self-sustaining mechanism of a high investment rate. Exports are governed by specialization, itself linked to past investment, and by the evolution of unit labour costs with respect to foreign competition. Finally, imports are used in order to feed the home economy with the required capital goods.

Given the objective of an outward-looking growth regime, what should be the best system of wage formation: should competitive mechanisms prevail or would the economy benefit from some institutionalization of income distribution? The model delivers a quite unconventional conclusion, due to the fact that the growth pattern depends on the compatibility of a productivity regime with a demand regime. If wages are too competitive, i.e. if they respond with a large elasticity to the fluctuations in employment, then a dilemma between productivity and growth might arise (Figure 2 in Annex 3). The reason is simple: if the world economy is booming, the demand addressed to the national economy will push up the real wage, and if the price elasticity of external trade is large, the economy will lose market share in spite of the national expansion. This is "bastard export-led growth". One could imagine that this kind of productivity squeeze or deceleration has taken place recently in South Korea, when workers demanded higher wages and social rights in the context of a fast growing economy [You, 1990].

Conversely, for the same elasticity of exports with respect to relative production costs, a wage labour nexus which would implement explicit or implicit productivity sharing could, if the related wage elasticity is not too high, help in implementing virtuous export-led growth (Figure 1 in Annex 3). In this case, any boom in world demand for exports generates simultaneously output and productivity increases, according to a mechanism which is functionally similar to that of Fordist intensive accumulation (Annex 1). In other words, a contractualization of the wage labour nexus would benefit both workers and managers, contrary to what is observed when wages are strictly competitive.

The model, which is summarized in Table 14, exhibits two other cases of possible interest in the comparison with Latin American countries. In the stagnationist regime, if the exports are not very sensitive to cost differentials, the economy would be hurt by competitive wage formation. On the contrary, a contractualization of wages along the lines of a Fordist compromise delivers a better regime. Given that the NICs have continuously improved the technological content of their production, it could happen that their exports have become less dependent on price, and consequently a new

**Table 14: The free functioning of labour markets is not
always favourable to growth.
A typology of four growth regimes**

Exports Wage formation	Competitive	Institutionalized
Highly sensitive to price	BASTARD OUTWARD LOOKING REGIME : Trade-off between growth and productivity	VIRTUOUS EXPORT LED GROWTH : Cumulative growth and productivity increases
Low elasticity and importance of exports	STAGNATIONIST REGIME : Inability to benefit from world growth	FORDIST GROWTH REGIME : Wage increases might benefit both productivity and growth

capital-labour compromise could emerge along the Fordist path, even in the context of a highly open and competitive economy.

This formal exercise, however provisional, totally challenges the conventional view according which export-led growth supposes strictly competitive wages. This might have been the case in the early phase of the process, but it is no longer an efficient strategy when the economy is hitting a full employment barrier and/or rising social demands for economic and political rights. Again, each regime exhibits a strong historicity: what was good during one period might become detrimental in another phase of the same process.

3. *Are labour institutions a discriminating factor between Latin America and Asia?*

To put some flesh on the quite abstract model displayed by Annex 3, the data presented in section 1 have been used to make some crude estimates for each of the basic equations. Do the theoretical hypotheses fit

with the whole sample of 20 countries, and do the related mechanisms significantly differ between Latin American and Asian countries? The results are shaky indeed², but they point out some interesting mechanisms, to be investigated further in future research (Annex 4).

For the whole sample, most of the mechanisms in the model are not rejected at the 10 per cent confidence level. Nevertheless, the impact of exports upon productivity and investment is not significant. A proxy for profit share plays a more significant role than exports in the investment equation.

The differences between separate estimates for Latin American and Asian economies are not significant for most relations. Some possible exceptions are as follows:

- The *productivity regime* is more sensitive to growth for Latin American economies than Asian. Thus, any slowdown in the growth rate exerts a much more depressing effect on the former than the latter.
- *Wages* are more sensitive to unemployment and productivity in Latin America than Asia, in spite of higher unionization rates.
- Latin American *exports* seem more price dependent than Asian exports.

Thus the two regions might belong to different regimes among the four possible configurations exhibited by the theoretical model. But the poor precision of estimates does not allow one to disentangle the two conflicting interpretations. According to the condition required by the *basic model*, Latin America would belong to a virtuous export-led growth regime, Asia to a stagnationist regime. But a great deal of other empirical evidence challenges this finding. Thus a second interpretation is more likely. Taking into account that the impact of exports upon productivity and investment is not significant, exports have been replaced by a proxy for profit in the investment equation and this delivers a *variant* for the initial model. Then Latin America would belong to an inward-looking regime, Asia to a virtuous export-led growth regime.

This analysis does not permit us to identify a clear role of wage formation mechanisms in the diverging performance of Latin America and Asia in the 1980s. A simpler method for assessing the impact of industrial relations systems is to compare the flexibility of wages and other labour

² Among other reasons because it is assumed that all countries from the same region follow the same regime, and in addition the sample is of restricted size.

market indicators (Tables 15 and 16). In these terms, Latin American countries exhibit labour markets which are as flexible as the Asian ones; even if the rate of unionization is usually higher, it is offset by the importance of informal markets. Actually, the econometric estimates (Annex 4) confirm this flexibility of Latin American labour markets. Contrary to the simple vision propagated by the elementary representation of the labour market by neoclassical theory, wage adaptability is not sufficient for full employment to prevail, nor to capture the opportunities in external markets. After all, defensive flexibility is not the only method for responding to business fluctuations, technical change and uncertainty. Multiskilling, training, dense industrial relations and bargaining have proved to be more efficient for economic performance among OECD countries (see section IV above).

Does not an equivalent opposition between defensive and offensive flexibility take place among NICs?

A final argument relates to the comparison of direct and indirect measures of the offensive or defensive nature of the labour market strategies followed. Aspects of these strategies can be observed through indicators such as the duration of work, the accident rate, unemployment, income inequalities and public investment in education and health (Tables 15 and 16). It comes out that Brazil and Korea follow quite Taylorist methods, whereas Singapore seems closer to the Japanese pattern, according which duration of work is progressively reduced and safety improved with new generations of equipment and organization. One possible inference is the following: whereas most economists still focus upon wage formation and competitive labour markets, the more successful NICs might in fact converge toward a wage labour nexus which is more Toyotist than Fordist. This reminds us that work organization, wage systems, industrial relations and the labour market are somehow related. Thus the various configurations they display might be key ingredients in the long run economic performance of nations. The hypothesis remains to be fully proven for the NICs, but it is a challenging one for economic development theory.

VII. What are labour institutions and what do they do? An agenda for future research

The present paper has proposed more a vision than a fully-fledged theory. The core hypothesis is simple indeed: the process of development is based upon the progressive increase in sophistication of a nexus of inter-

Table 16: Offensive and defensive flexibilities: Some indicators for Asian countries

Countries	DEFENSIVE FLEXIBILITY				OFFENSIVE FLEXIBILITY		
	Weekly hours of work	Accident rate	Unemployment rate	Income inequality	Share of education and health expenditures in total GDP	Unionization rate	% of international conventions on human rights ratified
	1989 (%)	1981 (%)	1988 (%)	(%)	(%)	(%)	(%)
Hong Kong	46.7	0.133	0.065	1.1	8.7	n.a	n.a
India	n.a	n.a	n.a	n.a	5.11	< 10	57
Indonesia	n.a	n.a	n.a	n.a	4.69	< 10	57
Japan	40.2	0.020	0.010	2.3	4.3	n.a	57
Korea	49.2	0.340	0.340	2.6	n.a	n.a	n.a
Malaysia	44.8*	n.a	n.a	n.a	11.13	10-20	n.a
Philippines	n.a	0.143	0.136	8.4	8.73	n.a	86
Singapore	46.6	n.a	n.a	2.2	9.59	n.a	42
Sri Lanka	50.7+	n.a	n.a	n.a	11.68	30-40	28
Thailand	n.a	n.a	n.a	2.6	n.a	< 10 %	28

Source: ILO [1985], Vol. 2, pp. 257-9; World Bank [1991], pp. 260-3. * 1984; + 1988.

related institutions concerning the nature of competition, the monetary and credit regime, the type of international relations and last but not least the wage labour nexus. Initially, the *régulation* approach was concerned with the long run transformations of advanced capitalist countries. An institutional analysis, complemented by statistical evidence and the formalization of growth regimes, suggested that the configuration of the capital-labour nexus might have played a major role in providing either macro-economic instability (the inter-war period), or the unprecedented stable and fast growth observed after the Second World War.

The tentative extension of this framework to developing countries in Latin America and more recently in Asia has encountered three series of methodological and analytical difficulties, which raise quite fundamental but difficult issues in the emergence of a new economic theory of institutions.

1. *A careful investigation and taxonomy of the basic labour institutions*

For developed countries, the wage labour nexus has been built in the manufacturing sectors, according to patterns which have finally shaped all the other sectors (services, public sector, agriculture,...). Generally one observes a high degree of formalization and institutionalization, due to collective bargaining, labour laws, human resource strategies of the large firms, the extension of a welfare state. Thus, the basic notions cannot be mechanically applied to developing countries: the imperfection of the previous analyses is good evidence of such lacunae.

Firstly, the Latin American evidence suggests that informal jobs are as important as formal jobs, and thus labour market functioning cannot abstract from the complex relations between various type of firms, work organization and legal status. In some cases, the apparent institutionalization of the wage labour nexus in large firms is only a minor part of the real dynamics of employment and income [Tokman, 1989]. The conventional theory of segmented labour markets, worked out for developed countries, does not necessarily apply in this context. Consequently, new formalizations are needed in order to capture the specificities of most developing countries' labour markets.

Secondly, for developing countries agricultural production relations might be a more important phenomenon than unionization in the large industrial firms [Bardhan, 1989]. This very important issue for development economics has been completely neglected by the present analysis, and this is an evident shortcoming. Of course, when rapid industrialization is taking place, the concepts derived from the *régulation* approach might have

some relevance, but this is less obvious when the issue is to capture the determinants of a successful transition from an agricultural society to an industrializing economy.

Thirdly, from a conceptual point of view, the notion of wage labour nexus should be extended in order to capture these specificities concerning agriculture and informal jobs. But even within the industrialized sectors, comparative studies suggest that the configurations are more diverse than implied by a naive view of convergence theory or even a culturalist approach [Whitley, 1992].

The challenge is then to provide a kind of taxonomy in order to organize the available information. The various papers presented at the workshop on which this volume draws deliver a very good starting point in order to build such a clarifying device. What are the similarities and differences between Japan [Tsuru, 1993] and Korea [chapters by Park and You in this volume] or between the Philippines and Thailand [chapters by Ofreneo, and by Piriyaarangsarn and Poonpanich in this volume]. How specific are the labour institutions in India [Papola and Rodgers, 1992]? Pairwise comparisons as well as a systematic taxonomy would be especially useful. But this first step should be complemented by two other series of investigations.

2. *Use modern micro-theory in order to study the impact of these institutions*

The reader might have diagnosed a second weakness in the present paper. The impact of labour institutions is assessed only indirectly via the building of simple macro-models and their statistical testing against time series or cross-section data. Such a method may deliver some suggestive insights and has been used by other researchers in institutional economics [Olson, 1982] or political economy [Lane and Ersson, 1990]. In passing, it may be noted that many theoreticians working on "new" endogenous growth have adopted a similar methodology, even to test micro-models [Barro, 1991; Bradford de Long and Summers, 1991; Mankiw, Romer and Weil, 1992]. Nevertheless, this methodology is not satisfactory and has to be extended in two major directions.

First, one should investigate how the various components of the wage labour nexus interact and are more or less congruent with the other institutional forms governing technical change, competition and the tax and credit systems. In fact, international comparisons and cross-section analyses do test the joint impact of a whole series of interdependent institutions. Then, a careful comparative analysis could disentangle their effects [Powell and DiMaggio, 1991]. Conversely, the same isolated labour institution (for

example a minimum wage, job security regulations,...) may have opposite effects when inserted into different national settings (e.g. either generate unemployment or enhance technical change and innovation).

Second, it is important to make a clear distinction between the emergence of institutions and their implementation and functioning within a stabilized regime. The first process is governed by power relations and it is rare for political power not to be involved: the rationality axioms and tools of modern game theory can be used but they do not necessarily capture the more important stylized facts. But the functioning of a given set of institutions can be formalized more easily in the new microtheories, which take into account the preferences and objectives of the actors, the technologies available for the firm and simultaneously the existing rules of the game, embedded in social norms, firm organization, bargaining structures and finally state laws. For instance, recent research has shown that unions and collective bargaining will survive in the face of adverse firm strategies under certain conditions about the degree of centralization, the more or less competitive forces operating in the product market and the costs or the subsidies associated with unionization [Corneo, 1992].

Mutatis mutandis, the same effort should be applied to the analysis of developing countries' labour markets, after a careful characterization of the institutional specificities of each national configuration. Modern micro-economic theory is especially flexible and can be adapted to a large variety of labour regimes, contrary to the old and now obsolete conventional representation of labour market as a self-equilibrating mechanism: by definition, any institution was an impediment to market equilibrium and optimality. Quite on the contrary, efficiency wage theories and approaches to labour market relationships in terms of "fairness" do recognize the complexity and specificity of labour relations and wage formation [Solow, 1990]. Thus, this extended theory can now be applied more easily and with a great deal more relevance to developing countries.

3. *Why do Latin American NICs differ from the four Asian dragons?*

A third and important domain has ultimately to be explored: given a set of labour institutions and the insertion of the national economy into the international regime, what will be the outcome in terms of welfare, employment, growth and innovation? Too often, static efficiency and short term welfare criteria dominate micro-economic analyses. This paper has argued that dynamic efficiency is not correlated with the same factors as static efficiency, but this hypothesis has only infrequently been explored.

Many economists do think that in the long run, economies grow along a Solowian path of steady growth, with no influence from institutions other than the equivalent of friction.

This view has been challenged by Solow in his Nobel prize lecture [1988]: the extreme simplification he had to postulate in his famous (1956) model aimed at showing the existence of stable equilibria, in the realm of pure theory. In real economies, relative prices are governed by many important institutions (collective bargaining for wages, monetary regime for interest rates,...) and they can shape individual behaviour in directions which affect long term growth and not only short or medium term disequilibria. For OECD countries such as France and the United States, some empirical evidence was presented above which does not contradict this general hypothesis.

Thus, the renewed interest in endogenous technical change should trigger more research about the impact of labour market institutions upon firm strategies in terms of employment, investment and even innovation. If for example, learning by doing "à la Kenneth Arrow" is attributed a major role in the accumulation of human capital [Lucas, 1993], then the incentives linked to the prevailing labour contracts, themselves embedded in a complete legal and social context, may make such a learning-by-doing process more or less profitable. Clearly, labour institutions may then have an influence upon the nature of the innovation process, on the direction of technical change and its intensity.

It is interesting to note that Lucas [1993] has designed one of his theoretical models in order to interpret the diverging growth performance of the Philippines and Korea. This new conception of the relations between economic theory and history is especially interesting for the issues explored in this book.

Since the very crude statistical analyses comparing Latin American and Asian countries have not delivered any clear cut conclusion (section VI, above), it is interesting to continue to explore the old questions: why do growth rates differ? [Denison and Poullier, 1967]. This issue has to be updated, given the stylized facts gathered during the two last decades: is the Japanese growth a mere catching up with American standards? Why is Europe growing more slowly than Japan? Why did Mexico and Brazil boom during the 1960s and 1970s and then fail to continue along a trajectory similar to Korea or Taiwan?

Various recent studies suggest a provisional conjecture: institutions matter for economic development, and during some critical stages labour institutions might be a key ingredient within this complex process. A huge research agenda would be needed to substantiate such a broad and

ambitious statement, but current trends within the academic world suggest that this is not totally out of reach.

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Annex 1:
A general, but simple, model
with multiple regimes

In this model, economic outcomes are the result of two complementary mechanisms: from growth to productivity (a productivity regime) and from productivity to aggregate demand (a demand regime).

I. An aggregate productivity regime

$$pr = F(q, Q, I/Q, MES, INNO, \dots) \quad (1)$$

$$I/Q = G(q, PRO/P.Q, INNO, \dots) \quad (2)$$

$$MES = H(Q, \dots) \quad (3)$$

$$INNO = J(STOCKINNO, q, RD, \dots) \quad (4)$$

with pr productivity growth, Q level of production, q its growth rate, I the level of investment, $INNO$ an index for innovation, MES minimum efficiency scale, $PRO/P.Q$ the share of profit in value added, RD the current expenditures on Research and Development. The first equation gives the main factors for productivity increases (growth, size of the market, investment rate, minimum efficiency scale, innovation). The second explains the rate of investment by demand growth, profit share and innovation. The third one gives the minimum efficiency scale as a function of the size of the market, whereas the fourth one describes current innovation with respect to past stock of knowledge, demand growth and R and D expenditures. This system leads to the following reduced form for the productivity regime:

$$pr = pr(q, Q, INNO, PRO/P.Q, \dots) \quad (I)$$

II. A demand regime

Productivity increases can act upon the various components of demand either through price effects or through changes in wages and profits. Therefore, in order to explain the link between productivity and demand, one needs to account first for the division of productivity gains between

price and distribution changes, and second the impact of these price and income effects on the various components of demand. Household consumption C , firm investment I , and net exports $X-M$ define the components of demand Q (in constant terms and ignoring public expenditures). According to rather conventional hypotheses, let us propose the following structural equations, in which each capital letter labels a variable expressed in absolute levels, while the same lower-case letter describes growth rates:

$$Q = C + I + (X-M) \quad (5)$$

$$C = c.(N.RW) + g \quad (6)$$

$$I/Q = a.(PRO/P.Q) + b.q + d \quad (7)$$

$$X-M = e.QW + f.Q + h(P - \underline{PW}) \quad (8)$$

$$NW = k.PR + l.P + o.N + u \quad (9)$$

$$P = m.(SN/PR) + r.\underline{PW} \quad (10)$$

$$RW = NW/P \quad (11)$$

$$PRO/P.Q = 1 - (SN/PR) \quad (12)$$

$$N = Q/PR \quad (13)$$

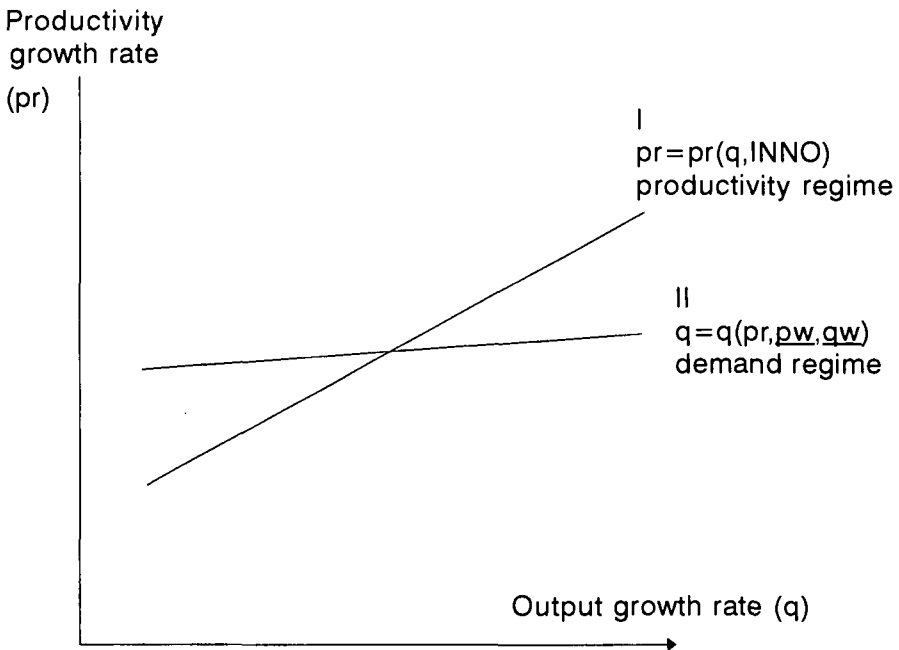
Demand regime reduced form:

$$q = q(pr, \underline{qw}, \underline{pw}, \dots) \quad (II)$$

Aggregate production (5) varies according to effective demand, a rather Keynesian and Kaldorian hypothesis. Household consumption (6) derives from the real wage (RW) and the employment level. It would not be difficult to add a positive propensity to consume out of profit [Hagemann and Nicoletti, 1989], but the model will be kept as simple as possible. The rate of investment (I/Q) (7) is linked jointly to the profit share and the rate of growth, the relative intensity of these two factors distinguishing between Keynesian ($b \gg 0$ and $a \approx 0$) and classical ($b \approx 0$, $a \gg 0$) regimes of investment. The shift could be made endogenous [Marglin, 1984; Marglin and Bhaduri, 1990]. Net exports (8) are related to the trends in world and home demand (QW and Q) as well as to a price competitiveness factor, comparing domestic and foreign prices. The nominal wage (9) is the outcome of a double indexation, with respect to productivity increases and inflation. In the discussion in the text, the degree of indexation with respect to productivity plays a major role in generating various demand regimes. The general level of prices (10) is set according to a mark-up applied to labour unit cost, given the world prices. The three last equations define respectively the real wage (11), the share of profits (12) and the employment level (13).

From this complete system of structural equations, one derives an aggregate demand function, which can be conveniently summarized by a demand regime reduced form (function (II)). Basically, it describes the impact of any given productivity trend upon demand generation. It shows the variety and complexity of the transmission mechanisms, which are crucial to any analysis of the self-reinforcing adjustment of technical change and demand, i.e. the core of the Smith-Young-Kaldor views about the growth process. But precisely, the conditions on the elasticity of demand [Kaldor, 1972] can now be addressed. On one side, for a given regime the demand may shift according to international and exogenous changes. On the other side, in the long run, the very dynamics of the system might lead to significant changes in some crucial parameters, basically productivity sharing between wages and profits, the degree of openness and the competitiveness of each national economy.

III. A graphical representation



Annex 2: Some evidence on changing growth regimes for the United States (1899-1976)

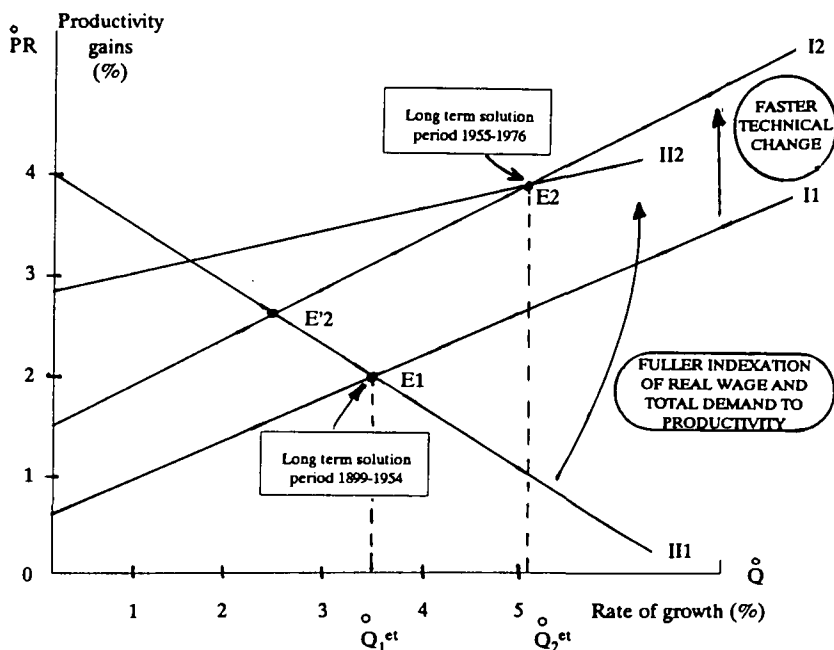
I. Three possible structural changes in the wage-labour nexus.

	1899-1954	1955-1976
1. A new vintage of innovations allowed by the wage-labour nexus	$\overset{\circ}{P}R = \overset{\circ}{0.60} + 0.40 \times \overset{\circ}{Q}$ <p>(0.7) (3.0)</p> $R^2 = 0.5$	$\overset{\circ}{P}R = \overset{\circ}{1.60} + 0.47 \times \overset{\circ}{Q}$ <p>(2.9) (3.7)</p> $R^2 = 0.69$
2. A closer indexation of wage with productivity	$\overset{\circ}{S}R = 1.09 + \overset{\circ}{0.32} \times \overset{\circ}{P}R$ <p>(2.7) (2.9)</p> $R^2 = 0.49$	$\overset{\circ}{S}R = -0.59 + \overset{\circ}{0.67} \times \overset{\circ}{P}R$ <p>(0.6) (2.6)</p> $R^2 = 0.53$
3. A consumption and wage-led demand regime	$\overset{\circ}{I} = -2.67 + \overset{\circ}{1.68} \times \overset{\circ}{Q}$ <p>(2.0) (8.1)</p> $R^2 = 0.88$	$\overset{\circ}{I} = -1.0 + \overset{\circ}{1.20} \times \overset{\circ}{Q}^{(*)}$ <p>(0.3) (1.9)</p> $R^2 = 0.38$
	$\overset{\circ}{Q} = 1.48 + \overset{\circ}{0.20} \times \overset{\circ}{W}R + 0.43 \times \overset{\circ}{I}$ <p>(51.6) (50.5)</p> $R^2 = 0.88$	$\overset{\circ}{Q}^{(*)} = 1.7 + \overset{\circ}{1.1} \times \overset{\circ}{W}R + 0.0004 \times \overset{\circ}{I}$ <p>(2.5) (3.6)</p> $R^2 = 0.83$
Accounting identities	$1 + \overset{\circ}{N} = (1 + \overset{\circ}{Q}) / (1 + \overset{\circ}{P}R)$	$1 + \overset{\circ}{N} = (1 + \overset{\circ}{Q}) / (1 + \overset{\circ}{P}R)$
	$1 + \overset{\circ}{W}R = (1 + \overset{\circ}{N}) \times (1 + \overset{\circ}{S}R)$	$1 + \overset{\circ}{W}R = (1 + \overset{\circ}{N}) \times (1 + \overset{\circ}{S}R)$

Notation : $\overset{\circ}{P}R$ productivity; $\overset{\circ}{S}R$ unit real wage; $\overset{\circ}{Q}$ volume of production; $\overset{\circ}{N}$ employment; $\overset{\circ}{W}R$ real wage income.

Dots are used to indicate rates of change for each variable.

II. These transformations imply a shift in both the productivity and the demand regimes.



THE REDUCED FORMS

1899 - 1954

$$(I1) \quad \dot{PR} = 0.60 + 0.40 \times \dot{Q}$$

$$(II1) \quad \dot{Q} = 6.9 - 1.74 \times \dot{PR}$$

$$\text{Solution } \dot{Q}_1^{et} = 3.4 \%$$

STABLE since $|BD| = 0.4 \times 1.74$
 $= 0.7 < 1$

1955 - 1976

$$(I2) \quad \dot{PR} = 1.60 + 0.47 \times \dot{Q}$$

$$(II2) \quad \dot{Q} = -13.1 + 4.54 \times \dot{PR}$$

$$\text{Solution } \dot{Q}_2^{et} = 5.1 \%$$

UNSTABLE since $|BD| = 0.47 \times 4.54$
 $= 2.1 > 1$

The two reduced forms (I and II) have been obtained by separate estimates of the structural form equations -- given some exogenous variables -- and by substitution. This gives two distinct relations.

Comments:

1. Had the wage formation and the demand regime remained constant, the acceleration of technical and organizational change (associated with Fordism) would have led to a decline in the equilibrium growth rate after 1954.
2. The change in wage formation has been crucial in promoting a higher growth rate. It explains why after 1954 the American growth pattern changed.

Source: Extracts from Boyer [1989]

Annex 3: What relations between wage formation and export-led growth ?

This Annex aims at investigating how external trade and specialization affect the growth regime.

Let us restrict the analysis to outward looking development patterns and investigate the conventional view according which the absence of any labour regulations would imply competitive wage formation and help in promoting export-led growth.

I. A crude export-led model.

It might be useful to extend the general model presented in Annex 1 by specifying the differential impact of the export sector. According to empirical studies for France (Bertrand [1983]) or Italy (Bertoldi [1991]), productivity is growing faster in the export sector than the domestic sector. This can be formalized, assuming that the openness of the economy enhances productivity more than the domestic market (equation 1). Similarly more investment is needed since generally capital intensity is higher in the export sector (equation 2). In turn this induces more imports, since capital goods production is more specialized than consumer goods production (equation 6). Following Bertoldi [1990], let us assume the following model :

$$\dot{PR} = \gamma + \lambda \sigma + \delta k \dot{X} + \varphi \dot{Q} \quad \delta > \varphi \quad (1)$$

$$\dot{I} = \rho + h k \dot{X} + h' \cdot \ell \dot{C} (1 - m_2) \quad h > h' \quad (2)$$

$$\dot{C} = g + d (\dot{RW} \cdot N) \quad (3)$$

$$\dot{X} = \alpha + \beta [\dot{SR}_f - \dot{PR}_f] - (\dot{SR} - \dot{PR}) + \dot{e} + \omega \dot{Q}_f \quad (4)$$

$$\dot{SR} = c_1 + c_2 \dot{PR} + c_3 (\dot{N} - \dot{POP}) \quad (5)$$

$$\dot{M} = m_1 \sigma \dot{I} + m_2 \ell \dot{C} \quad (6)$$

$$\dot{Q} = k \dot{X} + \ell \dot{C} + \sigma \dot{I} - \dot{M} \quad (7)$$

$$\dot{N} = \dot{Q} - \dot{PR} \quad (8)$$

$$\text{with } k + \ell + \sigma = 1 \quad k = X/Q \quad \ell = C/Q \quad \sigma = I/Q$$

The endogenous variables are \dot{PR} (productivity growth rate), \dot{I} (investment growth rate), \dot{C} (consumption growth rate), \dot{X} (exports growth rate), \dot{M} (import growth rate), \dot{SR} (real wage growth rate), \dot{N} (employment growth rate).

The exogeneous variables are \dot{e} (change of the exchange rate), \dot{Q}_f (growth of the rest of the world), \dot{SR}_f (growth of the real wage rate of the rest of the world), \dot{PR}_f (growth of productivity in the rest of the world), \dot{POP} (working population growth rate).

Dots indicate rates of change.

The equilibrium growth rate is defined as the result of two interacting mechanisms: the productivity regime on one side, the demand regime on the other.

$$(I) \quad \dot{PR} = A + B \cdot \dot{Q} \quad \text{productivity regime}$$

$$\text{with } B = \frac{\varphi - \delta k \beta c_3}{1 - \delta h \beta (1 - c_2 + c_3)}$$

$$(II) \quad \dot{Q} = C + D \cdot \dot{PR} \quad \text{demand regime}$$

$$\text{Sign } D = \text{Sign} \left\{ (1+h) k \beta - d \ell (1+h') (1-m_2) \right\}.$$

It is therefore possible to investigate under which conditions self-sustained export-led growth is possible.

II. Moderately competitive wage formation: a condition for a virtuous circle of exports.

Let us assume first that exports are sufficiently sensitive to cost differentials, i.e.

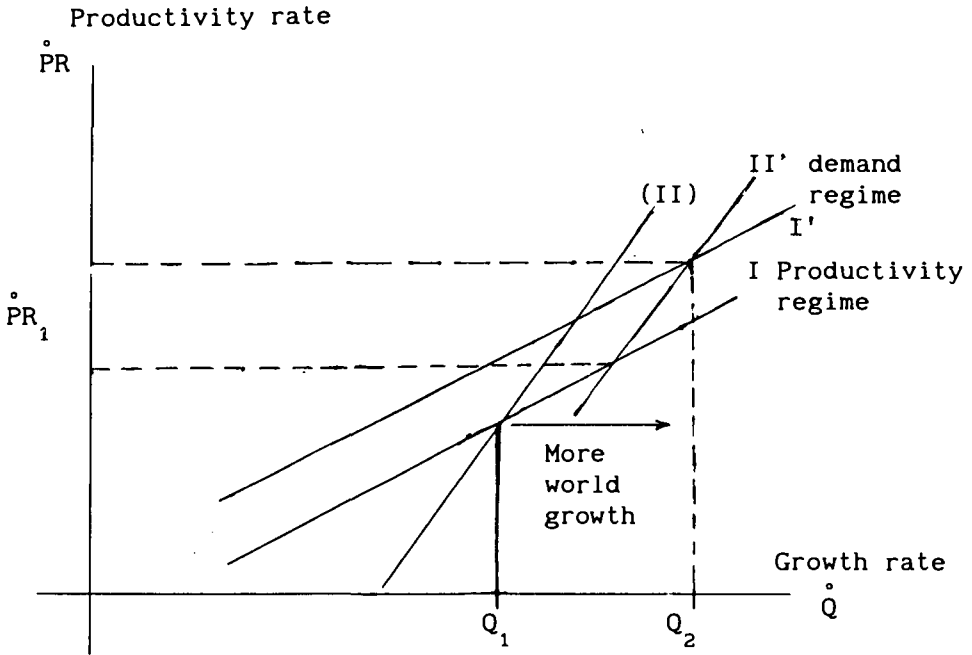
$$\beta > d \ell (1+h') (1+m_2) / k(1+h) = \beta_L$$

and that consequently the demand regime is increasing with productivity.

In order to get an upward sloping productivity regime and a stable regime, it is necessary to get :

$$c_3 < \frac{\varphi}{\delta k \beta} = c_{3L}$$

i.e. the competitive mechanism of wage formation has to be sufficiently modest.

Figure 1: Virtuous export-led growth

If this is the case, any expansion of world production, or a devaluation, have a positive impact on both growth and productivity. Consequently a moderation in competition in the labour market plays a positive role, both in the stability and the equilibrium rate of growth.

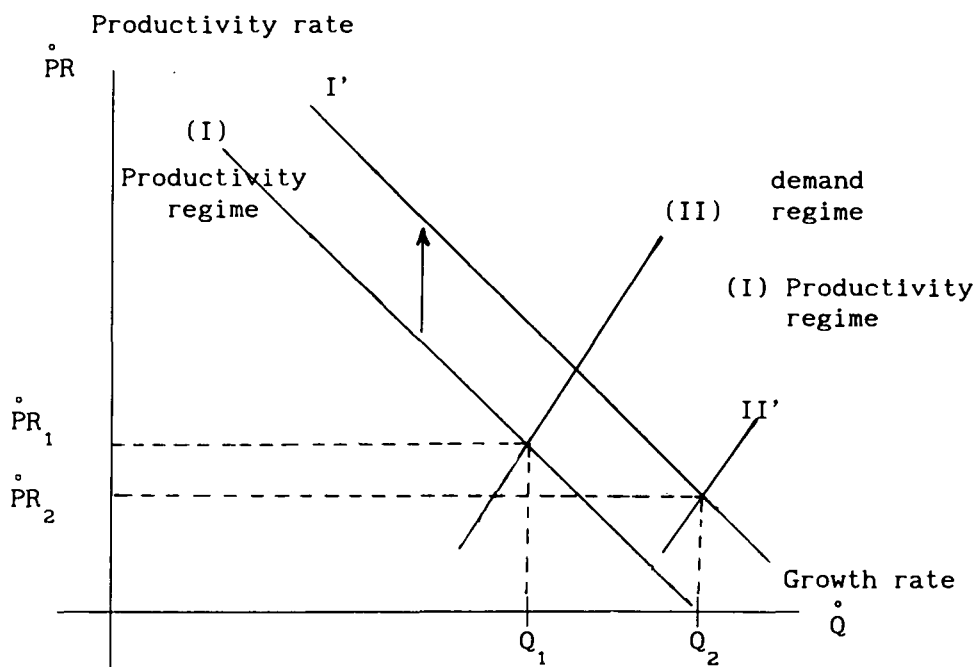
III. Perverse export-led growth, when wages are too competitive.

If the elasticity of exports remains unchanged, but now wages respond more to any labour market disequilibrium, i.e. if

$$c_3 > \frac{\varphi}{\delta k \beta} = c_{3L}$$

then, the productivity regime exhibits a trade-off between growth and productivity, due to the decline in exports and therefore productivity increases associated with any domestic expansion : the large rise of real wages prevents any joint expansion of production and productivity.

Figure 2: Bastard export-led growth.

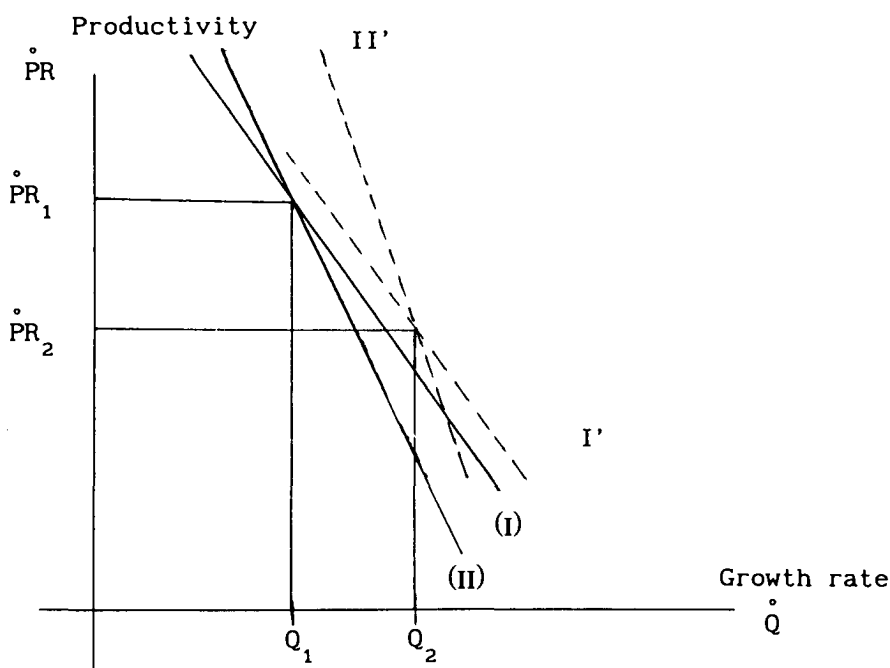


Consequently, an expansion of the world market has a positive impact upon growth, but not necessarily upon productivity. This can be termed a bastard export-led regime, since the very development process may lead to an exhaustion of productivity gains.

IV. A stagnationist regime: too much labour market competition and few export opportunities.

In this case, let us keep $c_j > c_{jL}$, but $\beta < \beta_L$. Then a still stronger conflict between productivity and growth appears. More world growth triggers an upward shift of the productivity regime, but it might happen that domestic demand is crowded out, and consequently the equilibrium growth might decline.

Figure 3: A stagnationist model.



V. A symbiotic alliance: an institutionalized wage along with domestic led growth.

The fourth case corresponds to weak competitive mechanisms on both the labour market ($c_j > c_{jL}$) and the world market ($\beta < \beta_L$). Then the productivity regime is upward sloped, but the demand regime is decreasing. In this case, any exogenous increase of wages unambiguously expands demand, but a positive impact upon productivity depends on the relative closure of the economy.

Annex 4: What differences between Latin America and Asian developing countries? The basic equations of the model presented in Annex 3 have been estimated for Latin America, Asia and the whole sample

I. Latin America

1. Productivity regime

$$\dot{PR} = -1.1 - 0.04 \cdot \dot{X} + 2.2 \cdot \dot{Q} \quad \bar{R}^2 = 0.48$$

(0.4) (0.04) (1.2)

$$\dot{PR} = -1.2 + 2.1 \cdot \dot{Q} \quad \bar{R}^2 = 0.57$$

(0.8) (3.2)

2. Investment

$$\dot{I} = -9.0 + 0.59 \cdot \dot{X} + 2.18 \cdot \dot{C} \quad \bar{R}^2 = 0.26$$

(3.6) (1.8) (1.4)

$$\dot{I} = -10.8 + 0.72 \cdot (\dot{PR} - \dot{SR}) + 3.4 \cdot \dot{C} \quad \bar{R}^2 = 0.59$$

(4.8) (2.2) (2.4)

3. Consumption

$$\dot{C} = 1.5 + 0.21 \cdot (\dot{SR} + \dot{N}) \quad \bar{R}^2 = 0.28$$

(4.9) (1.9)

4. Exports

$$\dot{X} = 1.1 + 0.90 \cdot (\dot{PR} - \dot{SR}) \quad \bar{R}^2 = 0.60$$

(1.1) (3.4)

$$\dot{X} = 0.59 + 0.91 \cdot (\dot{PR} - \dot{SR}) + 0.03 \cdot \dot{I}/\dot{Q} \quad \bar{R}^2 = 0.53$$

(0.2) (3.1) (0.15)

5. Wage

$$\dot{SR} = 2.1 + 0.54 \cdot \dot{PR} \quad \bar{R}^2 = 0.67$$

(2.7) (3.9)

$$\dot{SR} = 0.9 - 0.26 \cdot U + 0.35 \cdot \dot{PR} \quad \bar{R}^2 = 0.90$$

(0.7) (3.3) (2.9)

$$\dot{SR} = -2.9 + 1.0 \cdot \dot{Q} \quad \bar{R}^2 = 0.011$$

(2.0) (1.0)

6. Total demand

$$\dot{Q} = 1.3 + 0.08 \cdot \dot{X} + 0.28 \cdot \dot{C} + 0.23 \cdot \dot{I} \quad \bar{R}^2 = 0.88$$

(2.5) (1.4) (1.2) (5.0)

II. Asia

1. Productivity regime

$$\overset{\circ}{PR} = 1.6 - 0.10 \cdot \overset{\circ}{X} + 0.57 \cdot \overset{\circ}{Q} \quad \bar{R}^2 = 0.58$$

(1.2) (0.7) (3.4)

$$\overset{\circ}{PR} = + 1.3 + 0.52 \cdot \overset{\circ}{Q} \quad \bar{R}^2 = 0.63$$

(1.1) (3.6)

2. Investment

$$\overset{\circ}{I} = - 5.4 + 0.35 \cdot \overset{\circ}{X} + 1.2 \cdot \overset{\circ}{C} \quad \bar{R}^2 = 0.24$$

(0.8) (0.7) (1.1)

$$\overset{\circ}{I} = - 7.5 + 1.0 \cdot (\overset{\circ}{PR} - \overset{\circ}{SR}) + 2.0 \cdot \overset{\circ}{C} \quad \bar{R}^2 = 0.65$$

(1.6) (1.6) (2.3)

3. Consumption

$$\overset{\circ}{C} = 2.9 + 0.34 \cdot (\overset{\circ}{SR} + \overset{\circ}{N}) \quad \bar{R}^2 = 0.28$$

(2.2) (1.9)

4. Exports

$$\overset{\circ}{X} = 6.8 + 0.18 \cdot (\overset{\circ}{PR} - \overset{\circ}{SR}) \quad \bar{R}^2 = -0.15$$

(3.7) (0.25)

$$\overset{\circ}{X} = - 1.2 + 0.28 \cdot \overset{\circ}{Q} + 0.18 \cdot (\overset{\circ}{PR} - \overset{\circ}{SR}) \quad \bar{R}^2 = 0.15$$

(0.15) (1.0) (0.25)

5. Wage

$$\overset{\circ}{SR} = 2.7 + 0.30 \cdot \overset{\circ}{PR} \quad \bar{R}^2 = 0.03$$

(1.6) (1.0)

$$\overset{\circ}{SR} = 2.6 + 0.24 \cdot U + 0.30 \cdot \overset{\circ}{PR} \quad \bar{R}^2 = -0.52$$

(0.9) (0.6) (0.7)

$$\overset{\circ}{SR} = 1.9 + 0.43 \cdot \overset{\circ}{Q} \quad \bar{R}^2 = 0.15$$

(1.5) (1.8)

6. Total demand

$$\overset{\circ}{Q} = 1.2 + 0.14 \cdot \overset{\circ}{X} + 0.37 \cdot \overset{\circ}{C} + 0.29 \cdot \overset{\circ}{I} \quad \bar{R}^2 = 0.87$$

(1.3) (1.8) (2.0) (3.7)

III. Whole sample

1. Productivity regime

$$\dot{PR} = -1.3 - 0.23 \cdot \dot{X} + 0.68 \cdot \dot{Q} \quad \bar{R}^2 = 0.58$$

(0.9) (0.8) (2.5)

$$\dot{PR} = -0.8 + 0.83 \cdot \dot{Q} \quad \bar{R}^2 = 0.53$$

(0.6) (4.2)

2. Investment

$$\dot{I} = -7.4 + 0.45 \cdot \dot{X} + 1.42 \cdot \dot{C} \quad \bar{R}^2 = 0.60$$

(4.9) (1.8) (3.2)

$$\dot{I} = -9.5 + 0.73 \cdot (\dot{PR} - \dot{SR}) + 2.4 \cdot \dot{C} \quad \bar{R}^2 = 0.79$$

(6.4) (2.6) (6.9)

3. Consumption

$$\dot{C} = 2.0 + 0.43 \cdot (\dot{SR} + \dot{N}) \quad \bar{R}^2 = 0.76$$

(6.0) (7.0)

4. Exports

$$\dot{X} = 4.2 + 0.50 \cdot (\dot{PR} - \dot{SR}) \quad \bar{R}^2 = 0.05$$

(3.4) (1.3)

$$\dot{X} = -2.4 + 0.66 \cdot (\dot{PR} - \dot{SR}) + 0.28 \cdot \dot{I}/\dot{Q} \quad \bar{R}^2 = 0.03$$

(0.9) (2.0) (2.5)

5. Wage

$$\dot{SR} = -0.7 + 0.7 \cdot \dot{PR} \quad \bar{R}^2 = 0.67$$

(1.0) (5.4)

$$\dot{SR} = 2.6 - 0.3 \cdot \dot{U} + 0.41 \cdot \dot{PR} \quad \bar{R}^2 = 0.75$$

(1.5) (1.8) (2.1)

$$\dot{SR} = -1.9 + 1.0 \cdot \dot{Q} \quad \bar{R}^2 = 0.46$$

(1.8) (4.0)

6. Total demand

$$\dot{Q} = 1.1 + 0.14 \cdot \dot{X} + 0.41 \cdot \dot{C} + 0.25 \cdot \dot{I} \quad \bar{R}^2 = 0.94$$

(2.6) (3.0) (4.1) (5.7)

Definitions: All the variables are growth rates : PR (productivity), Q (production), I (investment), C (consumption), X (exports), SR (real wage).

Method: Cross section analysis for the samples and the variables defined by Tables 12 and 13.

3 *Labour institutions and economic development: A conceptual framework with reference to Asia*

Gary S. Fields¹

1. Introduction

The goal of economic development is to raise standards of living throughout an economy. Most households' standards of living are determined by the earnings of household members in the labour market. (Throughout this paper, the term "labour market" is used to include both wage employment and self-employment, whether regular or casual.) Consequently, raising the real earnings of a fully-employed labour force is rightly viewed as a primary means of improving living standards. The institutional arrangements governing labour markets help determine the rate and character of economic development. An excellent, yet concise definition of "institution" is that given by Irma Adelman: the rules of the game, plus the behavioural patterns in response to them.

After a long hiatus, mainstream economic theorists have returned to the task of modelling economic development. Lucas [1988] states that the goal of the "new growth theory" is to explain differences in income levels and in growth rates among countries. However, I would define the question of interest more broadly than that: it should include not only how the *total* income grows but how the benefits are *distributed*. But even for purposes of Lucas' more limited question, the labour market characterizations in the new growth theory models (e.g. those reviewed in Barro and Romer [1990] and those published in a special issue of the *Quarterly Journal of Economics*, May 1991) are still quite primitive. In these models, at any given time, all workers have the same human capital. Furthermore, all workers with a given human capital endowment receive the same wage. These assumptions are for analytical ease; however, they are at odds with the facts.

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Ideally, one would want to model labour institutions and economic development in explicitly dynamic fashion. What we would want ultimately is to embed institutionally-sensitive labour market characterizations into dynamic development models. Unfortunately, we are not yet at that stage. First, we need appropriate labour market models.

In this chapter, I set forth a framework for analysing how labour markets function under existing institutional arrangements and predicting how they would respond to alternative changes and policy interventions. I seek to blend logical rigour with institutional realism in a stylized way. My approach borrows from orthodox neoclassical analysis where relevant, and departs from those characterizations when the standard assumptions are empirically untenable.

To illustrate this, standard economic analysis posits the law of one wage, i.e. competition in labour markets is assumed to bring about equal wages for all workers with given skill at a level which just clears the market. In those circumstances where the assumption of a single market-clearing wage is empirically false, the analysis must include wage diversity and unemployment. I stylize wage diversity by formulating a dualistic labour market model, linking the two sectors through product and factor markets.

The rest of this chapter proceeds as follows. In Section II, I exposit the basic neoclassical labour market model: an upward-sloping labour supply curve, a downward-sloping labour demand curve, and market determination of wages and employment. This is a useful place to start, not only because it is familiar but because it is descriptively accurate in some (but by no means all) labour market situations in Asia. This model maintains a number of assumptions about labour market institutions and motivations for behaviour. These institutional and behavioural assumptions are highlighted and some implications are derived from them. However, when these assumptions are at odds with empirical reality, as often they are, the basic neoclassical model is not applicable and should not be used. It is for this reason that I use the basic model to understand the rapidly-rising real wages in Hong Kong, the Republic of Korea, Singapore, and Taiwan (China) since the 1960s but propose an alternative model to fit these economies' earlier experiences.

The next two sections then go beyond the basic labour market model in a variety of ways, presenting numerous illustrations from different countries in Asia. In Section III, I introduce into models of single labour markets a number of additional features, including unemployment, non-market wage-setting institutions, efficiency wage considerations, workers' resistance to wage-cutting, insider-outsider models, transactions

costs and asymmetric information. Then, in Section IV, I proceed to the analysis of multiple labour markets linked one to another and discuss wage dualism and labour market segmentation, differences among workers in human capital, and labour market discrimination. What emerges is a richer characterization of labour markets than in the textbooks, but one which still carries the flavour of supply and demand as a theory of employment and unemployment, though not necessarily as a theory of wage determination.

II. The basic neoclassical labour market model: Positive analysis

Consider the labour market model depicted in Figure 1. It is sometimes said that models such as this are devoid of institutional characterization. This is wrong. Rather, such models make assumptions about institutions. It is important to identify what those assumptions are.

1. Assumptions of the basic neoclassical labour market model

Assumption 1: Labour is homogeneous

Workers are assumed to be identical in relevant dimensions and employers are assumed to treat them as such. This is a simplifying assumption, one quickly relaxed in more sophisticated analysis.

Assumption 2: There is a single unified labour market

This means that the same institutional arrangements apply in all labour markets, e.g. wages are set by supply and demand everywhere. This too is a simplifying assumption, relaxed in many different ways.

Assumption 3: There are numerous buyers and sellers

No individual worker or firm is large enough to influence the terms and conditions of employment.

Assumption 4: Information is full and complete

Workers are assumed to know about the wages and other conditions of employment in all jobs. Similarly, firms have full information about all the economically relevant characteristics of each current or potential worker.

Assumption 5: Mobility is essentially costless

Workers can switch firms at essentially zero mobility cost. Likewise, firms can switch what, how much, where and how they produce, the only costs being those required to purchase the relevant inputs.

Assumption 6: Workers seek to maximize utility

Labour earnings are assumed to contribute positively to utility, whereas working itself contributes negatively to utility. Each worker tries to attain the highest level of utility possible.

Assumption 7: The supply of labour to a labour market is an upward-sloping function of the wage

Other things equal, when the real wage paid in a labour market rises, some additional workers come into the labour market in question from other labour markets, while others enter the labour force for the first time.

Assumption 8: Firms seek to maximize profits

Firms will do whatever is within their power in order to earn as much they can. In particular, they will hire workers only to the extent that this adds to their profits.

Assumption 9: The demand for labour in a labour market is a downward-sloping function of the wage

Other things equal, when the real wage required to be paid in a labour market rises, employers will tend to substitute capital in place of labour to produce any given level of output, and will also tend to reduce their scales of operation, demanding less labour for both reasons.

Assumption 10: Wages are set by labour supply and labour demand

If the wage is not at the level W^* in Figure 1, equilibrating forces are set into motion driving the wage to that level. These include the systematic movement of workers from low wage to high wage employers and the systematic movement of firms from high wage to low wage locations. It is assumed that no institutional impediment prevents the wage from rising or falling to level W^* .

Figure 1. The textbook labour market model

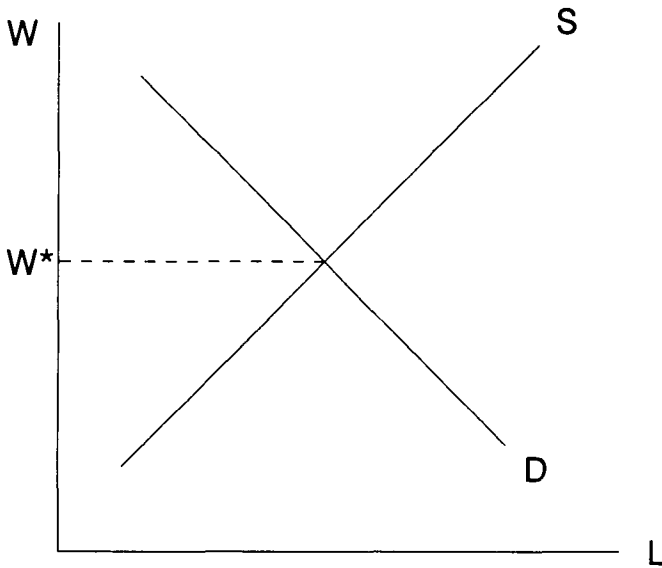
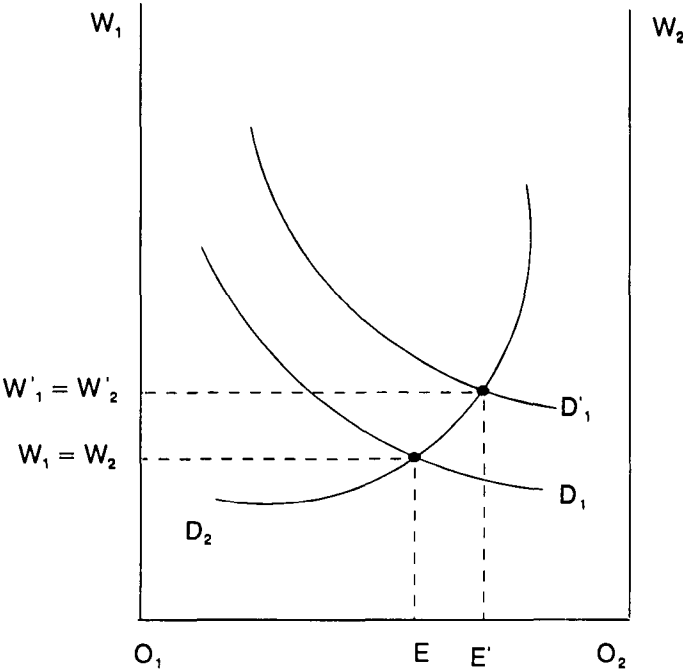


Figure 2. The effects of sector-specific growth in a two-sector labour market with market-clearing wages



2. *Positive economic analysis under the basic neoclassical assumptions*

Suppose for the moment that these assumptions are fulfilled. What are the model's predictions for economic development? The single most important one is that if the derived demand for labour increases in one sector of the economy, it will result in an increase in wages not only in that sector but in all sectors of the economy.

The analysis is aided by considering Figure 2. The initial demand for labour curve in Sector 1 is D_1 , which is downward sloping relative to origin O_1 . Similarly, the initial demand for labour curve in Sector 2, D_2 , is downward sloping relative to origin O_2 . The labour market clears when the same wage is paid in the two sectors and the combined demand for labour by employers in the two sectors exactly equals the available labour supply. At this wage, denoted by $W_1 = W_2$ in the figure, O_1E workers will be employed in Sector 1 and the remaining O_2E workers will be employed in Sector 2.

Suppose now that *one* of the sectors experiences economic growth, so that more labour is demanded in that sector than before. This is illustrated by a rightward shift of the demand for labour curve in that sector from D_1 to D_1' . Following the same logic as in the preceding paragraph, the model predicts that the labour market will equilibrate at a new, higher wage in *both* sectors of the economy ($W_1' = W_2'$) and with a reallocation of the labour force toward the growing sector (EE' workers shift from Sector 2 to Sector 1).

Empirical evidence strongly supports this prediction. Take for instance the changes in employment and wages that have taken place during the economic development of the Newly Industrializing Economies (NIEs) of East Asia — Hong Kong, the Republic of Korea, Singapore, and Taiwan (China). In the last thirty years, these economies have achieved virtually unparalleled rates of aggregate economic growth, approaching or surpassing 10 per cent per annum over long periods. Labour market conditions have moved in parallel fashion [Fields, 1984]. All four of these economies have experienced generally full employment (unemployment rates of 4 per cent or less). Labour earnings have increased sharply. From approximately 1960 to 1980, real wages rose by a factor of four in Taiwan, a factor of three in Korea, and a factor of two and a half in Hong Kong. In the 1980s, real wages in Korea doubled again — see the papers by Park and You in this volume.

As a result of the attainment of full employment and rapidly-rising real wages, standards of living became markedly higher in economic terms

in the Asian NIEs. One measure of this is the poverty rates in these economies. Poverty fell dramatically in all of them: from 18 per cent to 7 per cent in ten years in Hong Kong, from 41 per cent to 15 per cent in 11 years in Korea, from 37 per cent to 18 per cent in 14 years in Singapore, and from 35 per cent to 10 per cent in eight years in Taiwan.

What brought about these improvements in real earnings and standards of living in the recent decades? The answer, according to the basic labour market model described above, is that the labour market both facilitated economic growth and served to transmit this growth to households, thereby raising their standards of living. It bears mention that different styles of growth were responsible for the shifting labour demand conditions — government is much more heavily involved in the economies of Singapore and Korea than in those of Hong Kong and Taiwan [Scitovsky, 1986; Krause, 1988] — and the sources of growth were different in the different economies: technical change was a major factor in the economic growth of Hong Kong, while in Singapore technical change contributed virtually nothing to that country's growth [Young, 1992].

The consistency of real-world evidence with the model's predictions suggests that the multisector neoclassical framework is indeed a useful analytical framework for understanding changing labour market conditions in the East Asian NIEs since the 1960s. Real-world conditions do not appear to be so greatly different from the assumed conditions of the model as to invalidate the model's qualitative conclusions, at least for that time period.

3. Positive economic analysis: The need for alternative models in alternative circumstances

The basic neoclassical model outlined above offers a precisely specified economic framework with which to perform positive economic analysis of the workings of labour markets. The positive model can and should be challenged in terms of empirical realism.

On these grounds, the basic neoclassical model *cannot* explain earlier labour market developments in the East Asian NIEs. When economic growth took place in those economies in the 1950s, real wages did not rise. What did rise was employment. Those economies began with substantial unemployment. More workers were available than employers wanted to hire. When employers wanted to hire more workers to expand output, they were able to do so at the prevailing wage. It was only when no more labour was available to be employed at that wage that wages started to rise. This was because employers had to raise wages in order to attract more

workers. If the challenges to the basic neoclassical model are to be constructive (remember: the goal is to formulate the most useful analytical framework possible), care should be taken to avoid two pitfalls. One is to argue that because one or more of the assumptions presented in the first part of this section does not hold we must discard the entire approach. Of course, inaccurate assumptions should be replaced by others which better characterize a particular country's circumstances, but those assumptions of the basic neoclassical model that *are* accurate should be retained.

Secondly, care must be taken not to replace a precise assumption by a vague one. If a precise assumption is to be replaced, it must be by an equally precise alternative. To illustrate, consider Assumption 1, which maintains that a country has a single unified labour market in which the returns to labour are equalized across sectors and across individuals. Generally, we know this is not the case — comparable workers are paid higher wages in some sectors of an economy than in others, some workers are better educated than others and are rewarded differently in the labour market, and employers discriminate against some groups on the basis of characteristics not related to productivity. Observations such as these imply that there is not a single unified labour market in many circumstances. However, this is not a sufficiently precise alternative assumption. For analytical purposes, we must specify how the various labour market segments operate and how they are linked together, if at all.

Figure 3 presents an alternative to Assumption 1 which is helpful in explaining changing labour market conditions in the early economic development of a number of Asian economies. The figure depicts the high-wage sector in a dualistic labour market. The effect of economic growth is to shift the demand for labour curve rightward. Here, though, shifts in the demand for labour result in reduced unemployment, not higher wages — precisely what happened in the earlier phases of economic development in Hong Kong, Korea, Singapore, and Taiwan.

Figures 1 and 2 are the basic neoclassical labour market model; Figure 3 is not. What the preceding discussion shows is that the basic neoclassical model holds some but not all of the time. The different models apply to the same group of countries at different times.

It is important to understand where the two models differ. It is in their characterization of wage-setting institutions. The model of Figures 1 and 2 embodies the assumption of market wage determination through supply and demand, whereas the model of Figure 3 embodies a different assumption: wages are set above the market-clearing level for some reason.

Figure 3. High wage sector in a dualistic labour market

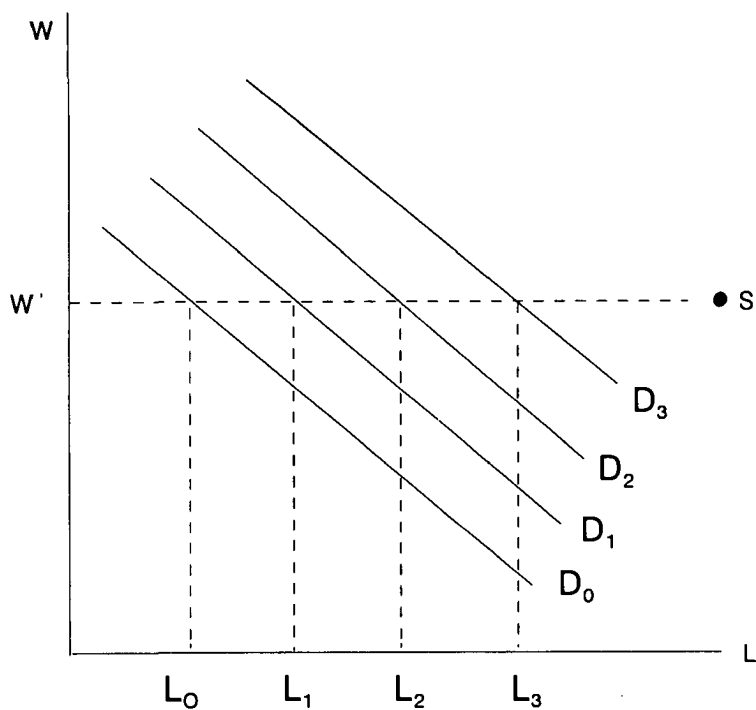
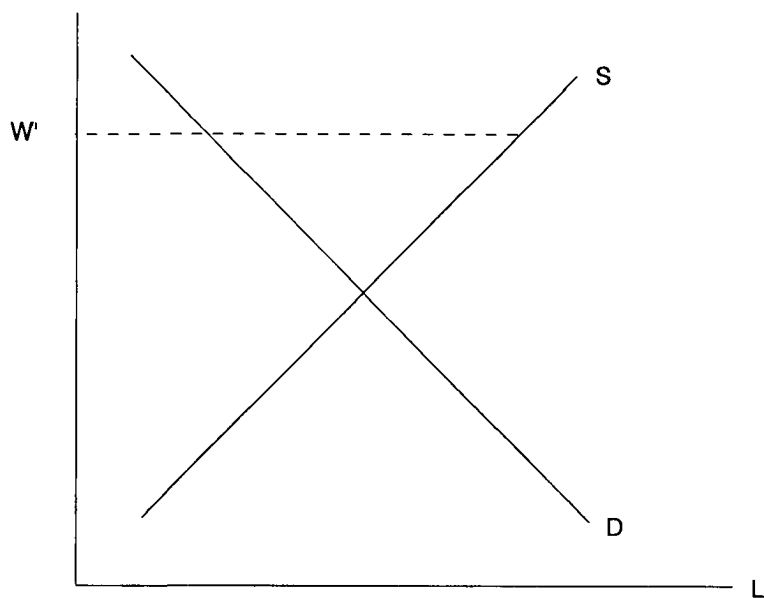


Figure 4. A single labour market with higher-than-market-clearing wages



The point I want to make by this is that no one model will do. Rather, a number of alternative models are needed to analyse how labour markets change in the course of economic development. The building blocks of the models must be modified to fit the circumstances. Because conditions are very different in different countries at different times, the models must also differ.

In Section III, I further discuss some of these alternative institutional assumptions in the context of positive labour market analysis.

III. Beyond the basic labour market model: Unemployment and non-market-clearing wages in models of single labour markets

1. Unemployment

The single biggest problem with the basic labour market model is the absence of unemployment. One defence of the basic model is to maintain that such unemployment as exists is frictional — those workers seeking jobs and those firms with vacancies have not yet matched up with one another. Indeed, in some Asian economies — Hong Kong, Indonesia, Korea, Singapore, Taiwan, Thailand — unemployment rates are under 5 per cent, a level quite consistent with the frictional unemployment characterization. Bertrand and Squire [1980] found that unemployment rates in all regions of Thailand during both wet and dry seasons were below 1 per cent of the labour force. But elsewhere in Asia, much higher unemployment rates have been observed: 13 per cent in Jakarta and 11 per cent in Metro Manila, for example [Rodgers, 1989]. These rates exceed any reasonable standard of friction. This suggests that something more permanent than friction is responsible for the observed unemployment.

The natural modification of the basic neoclassical labour market model — one which generates unemployment as a permanent feature of labour markets — is to introduce a higher-than-market-clearing wage. This is illustrated in Figure 4. As long as the wage remains at a level like W' , unemployment will persist.

Models of unemployment caused by above-market-clearing wages raise the question of why the wage remains at the level it does. The literature offers a number of possible answers.

2. *Institutional wage-setting models*

The earliest was the class of institutional models. Five institutional forces, singly or in combination, have potent influences on wages in much of Asia: (i) *minimum wage laws* are commonplace and when enforced cause wages to be higher than they otherwise would be; (ii) *labour unions* are often very strong. At times, this is because of the close association between organized labour and the political party in power. Other times, it is because labour unions are encouraged as a means of achieving higher wages for workers; (iii) *pay policy for government workers* often sets the pattern of wages for the rest of the economy, and those in charge have a propensity to pay high wages to all government workers, including themselves; (iv) also, *multinational corporations* often pay high wages, partly to maintain parity between expatriate and local employees and partly (in some instances) to appear to be good corporate citizens and thereby to avoid expropriation or expulsion; (v) finally, *labour codes* may require higher wages, fringe benefits, and severance pay, resulting at times in bloated work forces and inflated labour costs.

Institutional wage-setting above market-clearing levels characterizes many Asian economies. For instance, Starr [1981] discusses minimum wages in a number of developing countries. Yet, he comments explicitly about the *absence* of institutional wage-setting in Hong Kong, Korea, and Singapore (and presumably in Taiwan, though at that time Taiwan could not be mentioned in an official ILO publication). Evidence on the prevalence of market wage-setting in the four NIEs (except for occasional lapses in Singapore) is detailed in Fields and Wan [1989]. It is no accident that all four of these economies have sustained very low rates of unemployment: artificially high wages were not present, so labour use was not discouraged.

3. *Efficiency-wage models*

After the institutional models came the class of models known as efficiency wage models. These models share two key behavioural assumptions: (i) a worker who is paid a higher wage will be a more efficient employee; and (ii) paying an efficiency wage may be in the firm's profit-maximizing interests.

Efficiency wage theory comes in two variants; see, for instance, Akerlof and Yellen [1986] and Weiss [1990] for reviews of this literature. One variant maintains that by offering higher wages, a firm may be able to *induce higher productivity from a given individual*. This may be because more highly-paid workers are better-nourished and hence stronger, or more

willing to work harder or faster, or less likely to quit or be absent, or less likely to shirk or commit malfeasance on the job. A second variant of efficiency wage theory maintains that by offering higher wages, a firm may be able to *attract more productive individuals*. This may be because the firm can attract individuals with more education and training and/or select those who score better on tests, appear more qualified in job interviews, or possess observable correlates of high productivity such as good work histories.

When would a firm be willing to pay an efficiency wage? Suppose that by paying a 10 per cent higher wage the firm gets a more than 10 per cent increase in the productivity of its labour input. The firm's profits are thereby raised. More precisely, it will pay the firm to offer higher wages if and only if the marginal proportionate increase in efficiency is greater than the marginal proportionate increase in the wage.

Now, to the extent that efficiency wage considerations are responsible for wages being set and remaining above market-clearing levels, a labour market equilibrium with unemployment will result. In the basic neoclassical model, by contrast, when wages are above market-clearing levels, the labour market is in disequilibrium. This is because firms have an incentive to lower wages and the unemployed have an incentive to accept lower wages. The consequent lowering of wages will tend to reduce and ultimately eliminate unemployment. But when efficiency wages are being paid, one of the equilibrating forces in standard labour market analysis — the desire of profit-maximizing firms to lower wages in the presence of unemployment — is absent. Firms could lower wages and employ more labour but they won't: it is not in their profit-maximizing interest to do so. Wages will remain above the market-clearing level and unemployment will persist.²

How important are efficiency wages as an empirical matter? Taking India as a case study, the evidence is quite mixed. Rodgers' village studies [1975] found that wage variation with seasonal changes in labour market conditions was rare and could not be attributed to demand and supply factors. Bliss and Stern [1978], on the other hand, reported a "great, even bewildering diversity" of wages. In agreement, Binswanger and Rosenzweig [1984] cited "pervasive regional, annual, and seasonal variations of wages" in most empirical studies that cast doubt on fixed wage models. Drèze and Mukherjee [1989] found that the same standard wage often

² For further analysis of other labour market implications of efficiency wages, see Bulow and Summers [1986].

applies for several months or even several years. So it is difficult to draw a firm conclusion from the available evidence about the presence or absence of efficiency wages.

Recent analysis has noted at least one problem with efficiency wage explanations for the persistence of unemployment — the absence of long-term contracts. Binswanger and Rosenzweig [1984] observe that “long-term employment contracts are not very common in the South and Southeast Asian countries. When they are entered into, they seem to be based on the demand for specialized skills.” Bardhan [1984], Drèze and Mukherjee [1989] and many others have also noted the ubiquity of casual labour markets throughout Asia.

In those circumstances in which casual labour markets predominate and long-term contracts are absent, it may be difficult for individual employers to internalize the benefits of efficiency wages [Basu, 1992; Mukherjee and Ray, 1992; Guha, 1989]. Basu (p. 110) puts it thus: “... there is a time-lag, often quite long, between wages and productivity... Hence, in markets where landlords face a high labour turnover there may be little relation between the wage paid by a particular landlord and the productivity of *his or her* workers” (emphasis added). Basu notes that this is particularly the case in “casual labour market(s) where labourers are hired afresh each day.”

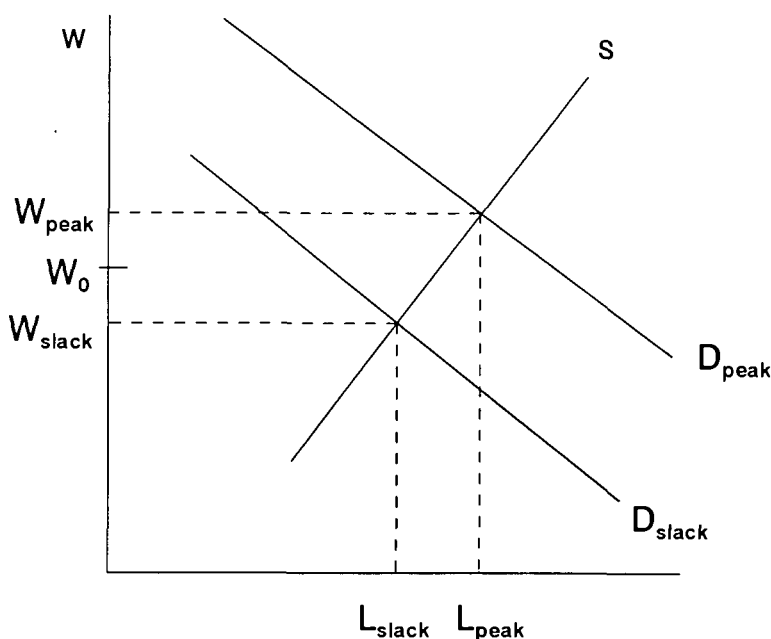
The point raised by Basu and by Mukherjee and Ray has merit in those cases where the motivation for efficiency wages is better nutrition: the employer who offers today’s workers higher wages does not get higher productivity today. It is much less applicable to situations in which the efficiency gains are immediate, for instance, when the pace of work is increased and higher wages are paid to reward workers for working faster.

In those cases where the labour market is a casual one and where wages exceed market-clearing levels, the source of these higher-than-market-clearing wages is called into question. Rather than employers’ resistance to wage cuts being responsible in those instances, another explanation must be sought. Several others are discussed in the next sections.

4. Seasonal unemployment

In rural Asia, seasonal unemployment is endemic; see, for instance, Bardhan [1984] and Binswanger and Rosenzweig [1984]. Villagers routinely report themselves available and actively looking for work during the slack season. Alas, not enough jobs are available for all who wish to work.

Figure 5. Unemployment in the slack season



An orthodox analyst would expect that the peak-season labour demand curve would shift leftward in the slack season, tending to lower wages. The existence of slack-season unemployment might then be understood in either of two ways. One is that the wage may indeed have fallen by enough to clear the market and that the unemployment is more illusory than real. The other is that the slack-season wage has not fallen sufficiently far to eliminate unemployment.

Consider the first explanation. Figure 5 depicts the leftward shift of the labour demand curve from D_{peak} to D_{slack} . If the wage falls from W_{peak} to W_{slack} , then there will be no seasonal unemployment — all who want to work at the prevailing wage are working at that wage. However, the remaining $L_{\text{peak}} - L_{\text{slack}}$ persons may be willing to work at wage W_{peak} but not at the current wage W_{slack} . Those workers may regard themselves as unemployed and they may be counted as such in the surveys. Doing this goes against the common conception of labour supply as consisting of those persons who wish to work *at the prevailing wage*. Of course, we may want to redefine what we mean by unemployment — for example, by classifying as unemployed anyone who would like to work but is not at work. Redefining unemployment is possible but would go against standard ILO definitions and conceptions.

Slack-season unemployment may arise for another reason: the slack-season wage may fall but not by enough to clear the slack-season market. Consider a wage such as W^0 in Figure 5. The slack-season wage may fall to W^0 but not as far as W_{slack} for any of several reasons: (i) institutional barriers such as minimum wages prevent the wage from falling that far; (ii) efficiency-wage considerations lead employers not to offer wages below W^0 (nutritional reasons, for example); or (iii) the labour market may not be a casual one — rather certain elements carry over across time periods. This last point requires further elaboration.

Some employers find it advantageous to maintain a supply of permanent labourers. These labourers must be fed in the slack season if they are going to be strong enough to work in the peak season. They may offer *those particular labourers* higher wages in the slack season so that those workers will be ready for work in the peak season. Casual workers who are not part of such permanent relationships might offer to work in the slack season at W_{slack} and yet will not be hired.³

A different reason for the slack-season wage not to be lowered to the market-clearing level is offered by Mukherjee and Ray [1992]. They postulate a form of “everyday peasant resistance” whereby workers have bargaining power in the slack season precisely because they have bargaining power in the peak season. In their words (p. 229): “In the slack season, a labourer has no option but to accept any wage offer not less than his reservation wage. However, depending on the state of affairs in the peak season, a labourer may decide to refuse to work for the farmers that have been unfair in his opinion, in the sense of paying a ‘low’ wage... The farmers are aware of these possibilities and act accordingly.” The authors find that under this model, nearly all equilibrium wage configurations are characterized by wage payments that exceed the reservation wage despite the presence of slack season involuntary unemployment. What the explanations offered in the preceding paragraphs have in common is that employers’ actions in the slack season affect their ability to hire in the peak season, when labour is urgently needed. They pay more than they need to in the slack season so that they can get the labour they need in the peak season. Involuntary unemployment in the slack season results.

5. *Worker-side resistance to wage cuts*

Let us return to the context of a casual labour market. Suppose we find that wages are above market-clearing levels in a casual labour market

³ I thank Pranab Bardhan for making this point.

in which individual employers are unlikely to be able to internalize the benefits of efficiency wages. Suppose further that no obvious institutional factor such as a union or a minimum wage is present. Another factor may be at work keeping wages in such a labour market above the market-clearing level and that is resistance on the part of workers to wage cuts.

According to basic neoclassical labour market theory, if wages are above market-clearing levels, unemployed workers would be expected to bid wages down in order to secure jobs. Yet, various authors including Bardhan and Rudra [1981], Rudra [1982], Drèze and Mukherjee [1989] and Osmani [1991] have found that unemployed workers in India and Bangladesh do *not* do this. The question is why.

Arguments given by Drèze and Mukherjee [1989], Solow [1990] and Osmani [1991] suggest the following explanation. Casual labour markets in rural Asia may be thought to be comprised of many potential employers and many potential employees who negotiate as frequently as daily with one another. Their strategies in these negotiations may be thought of in game-theory terms. In particular, when each worker decides what wage rate to offer to work for, he takes into account the effects of his actions on the likely behaviour of others and the effects of their reactions on his opportunities. Now, if the worker offers to work for less than the "going wage" in a particular locality, s/he may figure that others will also offer to work for that lower wage rather than remain unemployed. If the demand for farm labour has less than unit elasticity, the lower wage will not be counterbalanced by a correspondingly higher employment rate. The worker's expected income thus falls. S/he is also working more, thereby consuming less leisure. For both these reasons, the worker's expected utility falls. Anticipating these consequences of offering to work for a lower wage, the worker does not offer to do so even though s/he experiences involuntary unemployment some of the time. In this way, wages might remain above market-clearing levels, not because of formal wage-setting institutions nor because of employer-side resistance to wage cuts, but rather because of worker-side resistance.

6. *Insider-outsider models of unemployment*

Another explanation for unemployment pertains to those situations in which labour markets are not casual. In non-casual (i.e. "non-spot") situations, certain individuals are incumbents in jobs, and for this reason their positions are not available to others. It becomes important, therefore, to distinguish those who have jobs ("the insiders") from those who aspire to jobs ("the outsiders").

Insider-outsider models are developed by Lindbeck and Snower [1988] and Blanchard and Summers [1986], among others. Unemployment can arise if two conditions hold: (i) the insiders get together to insist upon wages and working conditions at higher than market-clearing levels, and (ii) the employer finds it more profitable to accede to the insiders' demands than to hire from the outside market.

What would happen if an outsider offers to work for a lower wage than the insiders now receive? Because the insiders are experienced, they are probably more productive than inexperienced workers would be. However, the insiders are typically more expensive than newly-hired workers would be. Suppose that the employer compares the productivity levels of experienced insiders versus inexperienced outsiders and concludes that it would be profitable to replace an insider by an outsider. Remove any threat from insiders, and the employer would want to hire the outsider. But the insiders *can* threaten: for example, they can go on strike, not work cooperatively with those who are newly-hired, or refuse to train them. These threats are effective if they lower the firm's profits by more than the firm gains by hiring the outsider. Knowing this, the firm may indeed not hire the outsider.

What we have then is that the unemployed are willing to work for lower wages and the firm would be willing to employ them at lower wages, with threats from insiders removed. However, the presence of such threats may lead the firm not to lower its wage and employ the unemployed. Above-market-clearing wages and involuntary unemployment result.

7. *Transactions costs and imperfect information in labour markets: Positive and normative analysis*

Labour market analysis has been enriched in recent years by the application and refinement of models based on transaction costs and/or imperfect information. The literature on this is vast; I shall briefly summarize some of the highlights.

The transaction costs school emphasizes that institutions arise in labour markets, as elsewhere, in order to lower the costs incurred by economic agents in dealing with others. These costs include information, negotiation, monitoring, coordination and enforcement of contracts. The imperfect information school analyses why particular institutions arise in response to limited information and missing markets.

These types of models have been developed to analyse a variety of institutional arrangements which "emerge as substitutes for missing credit,

insurance and futures markets in an environment of pervasive risks, information asymmetry and moral hazard" [Bardhan, 1989]. Among the labour/production relations which have been analysed in such terms are interlocked transactions, labour tying, and sharecropping.

There is now a large literature analysing various forms of tenancy contracts, including sharecropping, in terms of transaction costs and imperfect information [e.g. Newbery and Stiglitz, 1979; Bardhan, 1984; Eswaran and Kotwal, 1985]. In reviewing this literature, Rosenzweig [1988] focuses on two themes: access to unmarketable inputs and reduction of production risk. One unmarketable input is labour effort: workers may not work as hard as possible. The landlord may solve the effort elicitation problem by renting the land out to tenants for a fixed fee; the tenant becomes the residual claimant on production, hence puts in an appropriate amount of effort. While this solves the landlord's problem, it does not solve the tenant's. This occurs due to two reasons. One is that under fixed rental contracts, all of the risk of production falls on the tenant. If tenants are risk-averse and output risk is uninsurable, a fixed rental contract may be unbearably risky. "By sharing output, landlords and tenants share production risk, and share it optimally when the optimal allocation of inputs on tenanted land is enforceable" [Rosenzweig, 1988, p. 740]. The other problem is that besides land, the tenant must also obtain suitable inputs from the landlord such as managerial knowledge. The landlord has a greater incentive to supply such an input if he receives a share of the extra output. "It is the *double* coincidence of moral hazard (two, not one, market failures) that makes share tenancy potentially superior to fixed rate tenancy, even though neither tenant nor landowner supplies the full level of his own input that would be forthcoming under self-cultivation" [Rosenzweig, 1988, p. 740, emphasis in the original].

The preceding analysis leads to a strong welfare conclusion. Neither landlords nor tenants are *obligated* to organize themselves into sharecropping arrangements; fixed rent tenancy and wage employment are other possibilities. If we find that production relations *are* based on sharecropping, we may presume that *both* landlords *and* tenants gain by participating in such arrangements. If they were prevented from forming such arrangements, both sides would lose out. As Bardhan [1989, p. 1390] cautions in reference to sharecropping: "Its simple abolition, as is often demanded on a radical platform, without taking care of the factors that gave rise to the institution in the first place, may not necessarily improve the conditions of the intended beneficiaries of the abolition programme."

Moving from the specific institution of sharecropping to the more general issue of welfare and public policy, the literature on imperfect information and incomplete markets has produced some strong policy conclusions. Bardhan correctly notes that it may not be a good idea to outlaw an institution such as sharecropping. However, this does not imply that it is optimal to leave the institution alone either. Government interventions may be better yet. Stiglitz has demonstrated this in a series of papers: Shapiro and Stiglitz [1984], Arnott and Stiglitz [1985], and Greenwald and Stiglitz [1986] deal with contexts characterized by incomplete markets and imperfect information in which the laissez-faire equilibrium is Pareto-inefficient and might possibly be improved upon by suitably chosen taxes and subsidies which can make everyone better off. However, as Stiglitz carefully notes, certain conditions must be fulfilled for the *potential* positive role of government to become an *actual* one. That is, the government could effect a Pareto improvement if (i) it had sufficient knowledge of the structure of the economy; (ii) those responsible for implementing government policy had at least as much information as those in the private sector; (iii) those responsible for designing and implementing government policy had the incentives to direct policies to effect Pareto improvements, rather than, for instance, to redistribute income (either from the poor to the rich or vice versa, or from everyone else to themselves)... [Stiglitz, 1986, pp. 257-258].

Rigorous economic analysis sensitive to the particular institutional and political circumstances is what is called for.

8. Other single-sector models

Space does not permit me to go into all of the interesting labour market models that might be applied. I shall merely call the reader's attention to some of the more valuable contributions: the analysis by Svejnar [1989] of modern sector labour markets under conditions when unions and government increase not only firms' wages but also their levels of employment, so that firms are no longer on their labour demand curves; the analysis of downward wage rigidity in terms of implicit contracts offered to risk-averse workers [Baily, 1974; Azariadis, 1975]; the analysis by Amsden [1989] of "getting relative prices *wrong*"; and Harriss, Kannan and Rodgers' [1990] analysis of the determinants of mobility out of protected sector jobs and into small scale self-employment.

IV. Beyond the basic labour market model: Multi-market analysis with heterogeneous labour and market segmentation

1. Introduction to multi-market analysis

In some Asian countries, the neoclassical market-clearing paradigm provides a useful analytical starting point; such models were developed in Section II in both a single sector and a multiple sector context. In other countries, however, differences in labour market opportunities between sectors or between different types of individuals are enormous. Because of discrimination, women's labour market opportunities are much more limited than men's. The greater the worker's education and skills, the higher are his or her employment and earnings potential. Some workers are able to find jobs in protected labour market segments, while many others are not. And so on.

In view of these institutional realities, one would be hard-pressed to maintain, as does standard textbook labour market analysis, that the workers in any given Asian country participate in a single integrated labour market. It would be better to think of there being a multiplicity of labour market sectors and groups, each with its own particular conditions, linked one to another.⁴

A thorough analysis of labour institutions as factors in Asian economic development would require several steps:

- identifying the different sectors and groups;
- studying the labour market functioning within each;
- specifying the connections between the various sectors and groups;
- analysing policy with the resultant model.

In the following sections, I outline how these steps might be followed in multi-market analysis of three different types: heterogeneity of labour markets due to wage dualism and segmentation, heterogeneity of labour markets due to differences among workers in education and training, and heterogeneity of labour markets due to discrimination in favour of certain types of workers and against others.

⁴ Harriss, Kannan and Rodgers [1990] draw the useful distinction between "stratification" (when a labour market is characterized by a vertical layering of individuals) and "segmentation" (when labour markets work differently in different parts of an economy).

2. *Wage dualism and segmentation*

In many economies, for workers of a given type, labour market rewards are higher in some sectors of the economy than in others. The general name given to this phenomenon is "labour market segmentation". Suppose that the appeal of a labour market can be summed up by a single variable called "wage".⁵ When the various segments can be grouped into two categories — those offering relatively high wages and those offering relatively low ones — the term used is "wage dualism". This subsection considers one type of wage dualism, that associated with wage floors.

A wage floor is a rate below which wages cannot fall. As discussed above, wage floors may be caused by minimum wages, union wage increases, public sector pay policy, or something else. Wage dualism arises because of differential applicability of these wage-setting institutions in different parts of the economy. Wage dualism is a feature of many, but by no means all, Asian economies.

In Fields [1992], I analyse wage floors in a two-sector context. Sector C is covered by a wage floor and sector N is not covered. Suppose that before the wage floor was imposed, a wage W^* cleared the labour market. Then, in the covered sector, the wage is increased by g per cent compared with what it would have been otherwise:

$$(1) \quad W_C = W^*(1 + g).$$

The higher wage lowers employment in the covered sector by ge per cent, where e is the (arc) wage elasticity of demand for labour in the covered sector evaluated between W^* and W_C :

$$(2) \quad E_C = E_C^* (1 + ge).$$

Assume that there is no on-the-job search and that there is probabilistic hiring.⁶ Under these assumptions, workers who seek covered sector jobs must enter the covered sector labour market. Workers seeking covered sector jobs have expected wages:

$$(3) \quad E(W_C) = W_C (E_C / L_C).$$

⁵ This is purely for terminological convenience. Differential job protection, fringe benefits, and the like are also of value to workers. So that we can work in two dimensions, we abstract from them here.

⁶ These are the assumptions made in the dualistic labour market models of Harris and Todaro [1970] and Mincer [1976] among others. It would be worth extending these models to consider other hiring rules. One such extension — preferential hiring on the basis of education — is outlined below.

Workers who settle for non-covered jobs receive W_N . In equilibrium, these two expected wages are equal:

$$(4) \quad W_C (E_C / L_C) = W_N.$$

It is easy to see that the wage floor causes unemployment. This is because employers in the covered sector demand less labour at higher wages and because it is in some workers' interest to risk unemployment while trying to be hired for these relatively attractive jobs. From the equilibrium condition (4), the fact that $W_C > W_N$ implies that $L_C > E_C$, hence unemployment exists.

It is less easy to determine what the amount of unemployment depends upon. The following results are proven in Fields [1992]:

- A sector-specific wage floor may induce labour to move *out of* the covered sector or *into* the covered sector, depending upon parameter values.
- Other things being equal, a greater elasticity of demand for labour in the covered sector may result either in *less* unemployment or in *more* unemployment in equilibrium, depending upon parameter values.
- Other things equal, a greater elasticity of the wage in the noncovered sector with respect to the size of that sector's labour force may result either in *more* unemployment or in *less* unemployment in equilibrium, depending upon parameter values.
- Other things equal, a higher wage floor may result either in *more* unemployment in equilibrium or in *less* unemployment in equilibrium, depending upon parameter values.

In summary, these results suggest that the unemployment effects of wage floors are more complicated than had previously been recognized. Surely, a policy-maker would want to know how much unemployment is likely to be caused by a wage floor before deciding whether to establish one. Analyses of the type indicated above tell us what the answer depends upon.

The theoretical model yields ambiguous results. So to assess the effects of wage floors, empirical estimates of the various parameter values within an empirically-relevant theoretical framework take on added importance. But before this can be done, the analytical framework would need to be extended beyond the factors considered above (the elasticity of demand for labour in the covered sector, the elasticity of the wage in the non-covered sector with respect to the size of the noncovered sector labour force, and the level of the wage floor) to consider also the effect of such additional labour market phenomena as job fixity, heterogeneous labour,

preferential hiring, and on-the-job search, all in a multi-period context. The analytical models required to determine the likely effects of this labour market institution (wage floors) are complex indeed.

3. *Heterogeneity of workers: Education and training*

Workers differ in terms of education, and these differences are relevant to labour market analysis. As a stylized version of these differences, suppose that there are just two categories of people: those educated and those not. Employers may hire workers from either or both of these groups.

Much development effort is directed towards upgrading the education and training of a country's labour force. To determine the effects of educational expansion, models are needed of the educated and the uneducated labour markets and the linkages between them. The following is excerpted from a lengthier account [Fields, forthcoming].

(i) *The market-clearing labour market model*

The standard labour market model, reviewed above in Section II, maintains that the wage in a labour market adjusts to equate the amount of labour supplied to the amount of labour demanded. When there are two types of workers, some educated and some not, the market-clearing paradigm holds that wages for the educated and the uneducated clear their respective markets.

Figures 6 and 7 depict the initial supply and demand curves and wage rates in the two labour markets. The wage of educated workers is higher than the wage of uneducated workers. This is necessary to induce young people to incur the monetary and psychological costs of education and forego years of earnings while in school.

If the educational system is expanded, the enlarged supply of graduates shifts the supply curve of educated labour to the right and the supply of curve of uneducated labour to the left. If the demand curve for labour is stationary, educational expansion in this case would lower the wages of the educated (from W_{ed}^* to W'_{ed}) in order to employ them all and raise the wages of the uneducated, who are now relatively scarcer (from W_{uned}^* to W'_{uned}). The market-clearing paradigm therefore predicts that the newly-educated would all be employed at higher wages than they would have received without the education. Society benefits from the gain in productivity associated with having more persons employed at higher wages and producing more. The social cost of education consists of the resources used in providing the additional education.

Figure 6. Labour market for educated workers with market-clearing

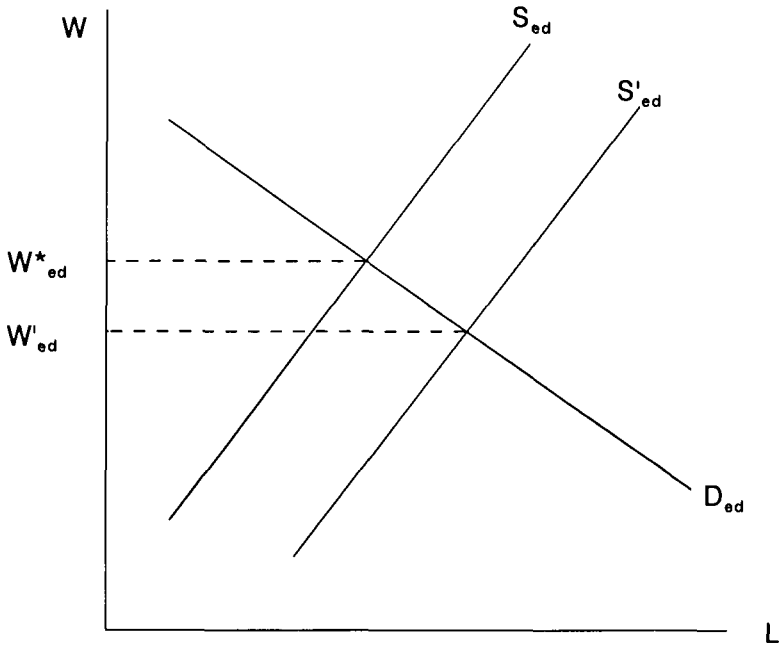
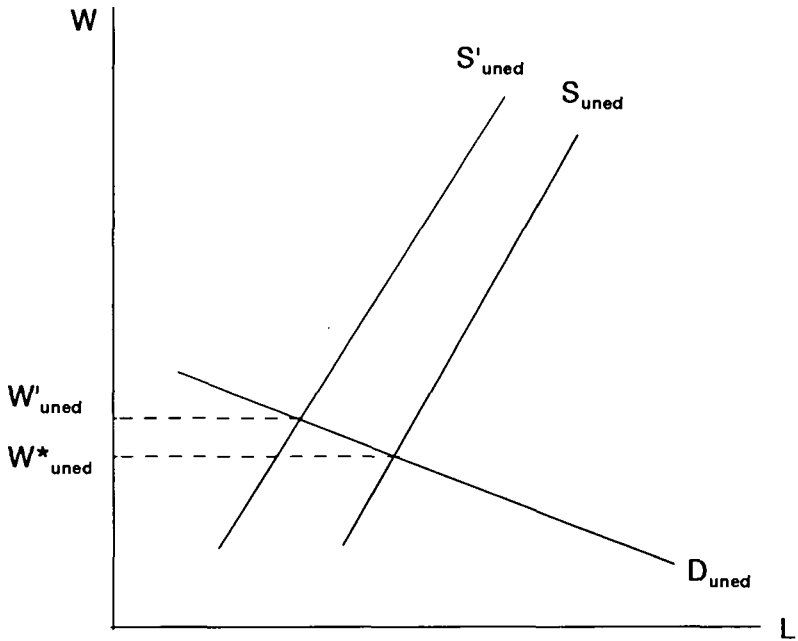


Figure 7. Labour market for uneducated workers with market-clearing



Very different outcomes may result under other institutional circumstances. I now present two of these.

(ii) Non-market-clearing wages: The case of labour market stratification

Suppose that the wage paid to educated labour is above the market-clearing level. Educated persons seek the best-paying jobs in the economy. But because there are not enough high-paying jobs available for all the educated persons seeking them, we then need to ask what happens to the educated persons who do not get hired for these jobs. In the case of labour market stratification, we assume that *all* the educated continue to seek the better jobs.

Now suppose that educational expansion takes place. Figure 8 shows what would happen to the educated persons' labour market. The rightward shift of the supply curve of educated labour simply adds to educated unemployment. This, in essence, is the explanation offered by Blaug, Layard, and Woodhall [1969] for educated unemployment in India: the surplus educated are willing to endure a spell of unemployment until they get hired.

As for the uneducated persons' labour market, if their wages are set by supply and demand as in Figure 7, the leftward shift of their supply curve would result in higher wages for those who remain uneducated. But if their wages are also at higher-than-market-clearing levels, the effect is a reduction in unemployment, as shown in Figure 9. In this latter case, educational expansion simply results in a transformation of uneducated unemployment into educated unemployment. Considering the social costs involved in providing education, this is hardly a good way to achieve economic development.

(iii) Non-market-clearing wages: The case of bumping

In the bumping model, as in the others presented above, education is a requirement for the higher-level jobs. But unlike the labour market stratification model, the bumping model makes two different assumptions. First, it maintains that educated workers would be willing to accept lower-level jobs if it pays them to do so. Second, it assumes that employers offering lower-level jobs are willing to hire educated workers in preference to uneducated workers at a wage which is set for the job, not for the characteristics of the worker hired to fill that job.⁷

⁷ If there were no educated unemployed, employers would have to offer educated

Let us call the higher-level jobs “skilled” and the lower-level jobs “unskilled.” The labour market for the skilled jobs is shown in Figure 10. Educational expansion would shift the supply curve of labour to the skilled jobs to the right provided that *some* of the additional educated workers seek skilled jobs. Whether they do or not depends on a comparison between (i) an uncertain prospect of finding a job at the skilled wage, and (ii) the wage that could be received immediately upon accepting an unskilled job. In the case where there is no on-the-job search and where hiring is probabilistic, the expected values associated with these two labour market strategies are, respectively:

$$V(i) = W_{sk} \pi_{sk}$$

and

$$V(ii) = W_{unsk}$$

(When there is on-the-job search or when hiring is not probabilistic, the formulae for $V(i)$ and $V(ii)$ are different but the choice process facing educated workers is the same.)

When educational expansion takes place, everyone must reoptimize. The educated workers compare $V(i)$ and $V(ii)$ and choose that labour market strategy which offers the highest rewards to them. The uneducated workers must then search from among those unskilled jobs that are left over for them after the educated workers are hired first. Depending on the country, it may be that the expected wage falls as a result of increased competition among the uneducated for the reduced number of unskilled jobs. Alternatively, it may be that unskilled jobs are available at the prevailing wage for all who seek them.

Depending upon the initial parameter values, three patterns are possible for the effects of educational expansion:

(i) The educated may all continue to search for skilled jobs. In this case, the analysis is identical to that presented just above in the labour market stratification case.

(ii) Some of the educated may find it to their advantage to bump uneducated workers out of unskilled jobs. The larger the size of the educated persons' labour force, the greater the number who will do this.

workers higher wages in unskilled jobs than they would offer to uneducated workers for those same jobs. The employer would do this if the extra productivity of the educated worker more than justified the extra cost of hiring him/her relative to an uneducated worker. However, when there is educated unemployment, employers can set the wage for the job, not the worker, and hire the best-qualified applicant at no extra cost.

Figure 8. Labour market for educated workers with above-market-clearing wage

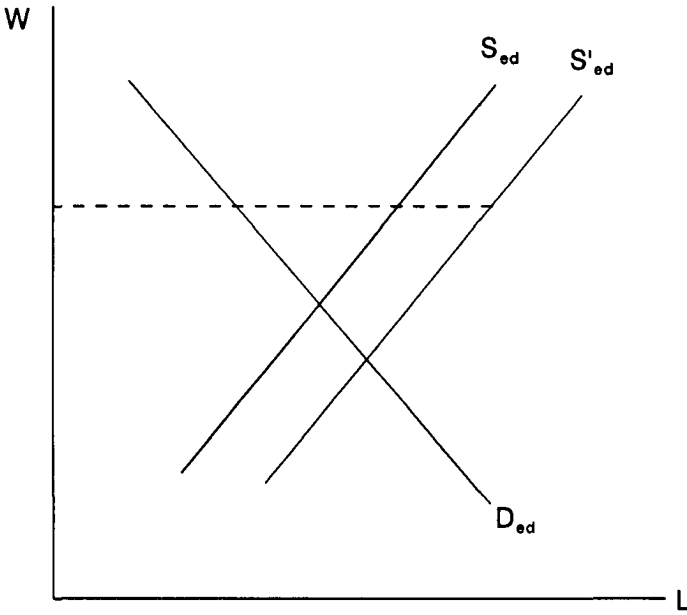


Figure 9. Labour market for uneducated workers with above-market-clearing wage

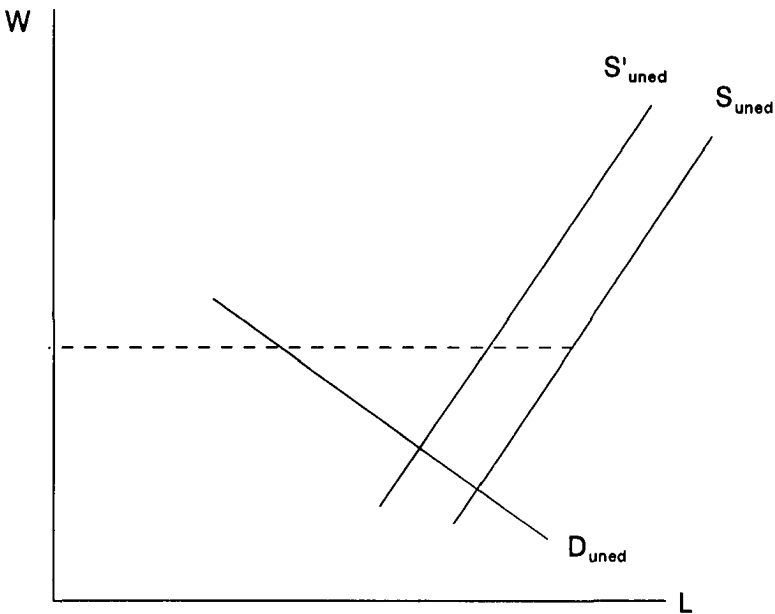
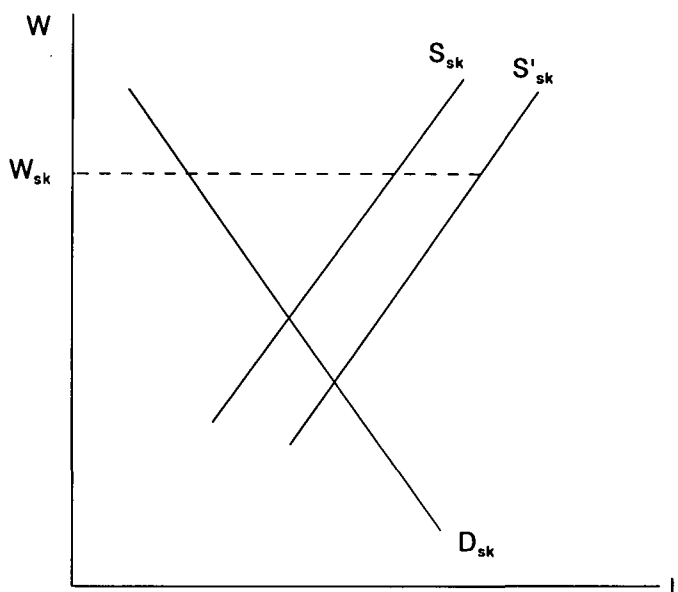


Figure 10. Labour market for skilled jobs



If the uneducated workers have some place else to go, more of them will choose this other alternative — for example, going back to the farm in the case of a land-abundant economy. The expected wages of those educated remain constant, as do the expected wages of those uneducated. The economy now has more educated people performing unskilled jobs. Society benefits from the gain in productivity associated with such people. Again, this gain must be compared with the cost of producing the education.

(iii) If some of the educated find it advantageous to bump uneducated workers out of unskilled jobs, the demand curve for uneducated workers in unskilled jobs shifts leftward at the same time that the supply curve of uneducated workers in unskilled jobs shifts leftward. If the uneducated workers do *not* have somewhere else to go (for example, because land is scarce and agricultural jobs are limited in number), it is quite possible that the demand curve for uneducated labour shifts leftward by more than the supply curve does, in which case the expected wage for uneducated labour falls; see Figure 11. A constant expected wage for educated labour coupled with a falling expected wage for uneducated labour produces a rising differential between the educated and the uneducated. In such a case, educational expansion causes the uneducated to fall further and further behind. Relatively speaking, education becomes more and more valuable, as those without it become condemned to ever-poorer labour market opportunities.

This may cause more and more education to be demanded. And if, in response, more and more education is supplied, the society may end up with *everyone* seeking education.

In summary, in these three alternative labour market models, educational expansion has very different consequences. The last thing that a poor Asian country wants to do is use its scarce budgetary resources to produce more educated unemployment with no corresponding increase in the productivity of those employed. Before a policy of educational expansion is chosen, the authorities must have a clear idea of which of these three models best fits the country's circumstances.

4. *Heterogeneity of workers: Labour market discrimination*

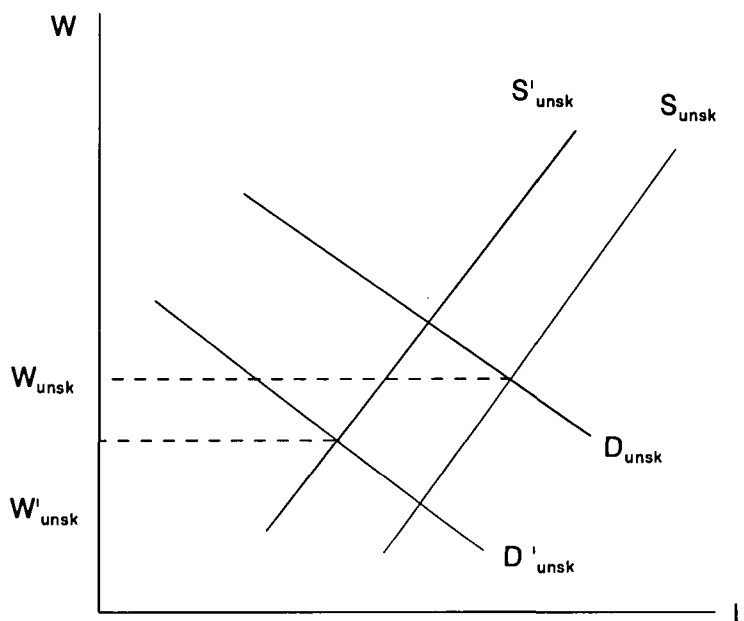
Many Asian workers suffer discrimination — some because of race, some because of caste, some because of ethnicity, and many because of gender.⁸ Some of this discrimination takes place in the labour market, primarily on the part of employers, and some prior to labour market entry, on the part of parents, schools, and others. It is important to pinpoint the locus of the discrimination if progress is to be made in eliminating it.

Following Arrow [1973], we may define current labour market discrimination as “the valuation in the labour market of personal characteristics of the worker that are unrelated to productivity”. Such labour market discrimination may take many forms. Among them are:

- wage discrimination — paying differential wages to equally productive workers;
- employment discrimination — the preferential hiring of members of the favoured group;
- occupational segregation — the stereotyping of jobs (e.g. “men’s jobs” and “women’s jobs”) and the assignment of members of different groups to different jobs;
- crowding — the involuntary confinement of members of the less favoured group to the less desirable occupations or sectors;
- statistical discrimination — selecting individuals for employment or training on the basis of easily-observable attributes (race, ethnicity, gender,...) which are thought to be related to productivity.

⁸ See, for instance, Drèze and Sen [1989].

**Figure 11. Labour market for unskilled jobs
when demand for uneducated workers shifts**



In view of these forms of discrimination, the literature on the economics of discrimination offers different models of how discrimination is effectuated and what might be done to eliminate differences in labour market outcomes due to discrimination. Four analytical approaches are briefly reviewed below.

(i) The tastes model

Most closely associated with Becker [1957], the tastes model holds that firms enter the labour market with prejudicial tastes. These may originate with the employer, who dislikes hiring workers of a certain type; with co-workers, who dislike working alongside or under members of the discriminated-against group; and/or customers, who dislike being served by members of certain groups. These prejudicial tastes lead each firm to behave as if it had its own “market discrimination coefficient”, viz., a premium that it would have to be paid, or a cost saving that it would have to realize, before it would be willing to deal with members of the discriminated-against group. For instance, when employer i considers whom to hire, s/he would behave as if the wage rate π were the cost of hiring someone from the favoured group and $\pi(1 + d_i)$ the cost of hiring someone from the unfavoured group. Here, d_i is employer i 's market discrimination coefficient.

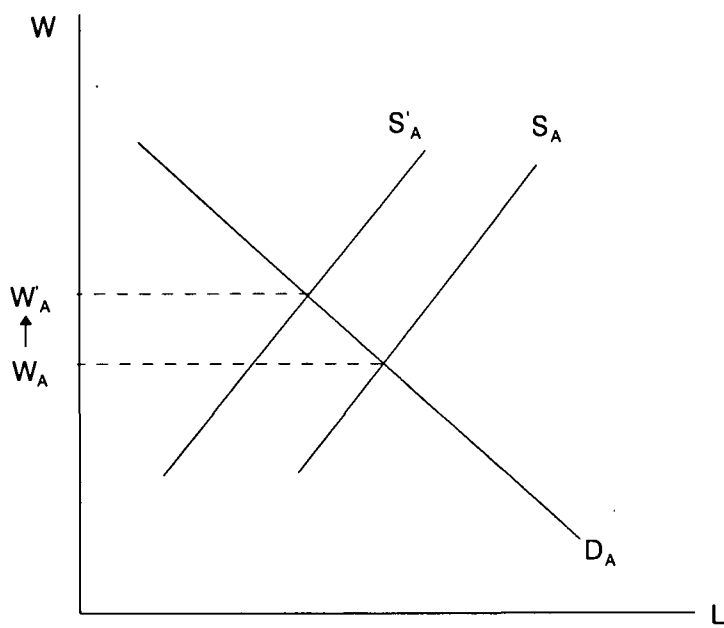
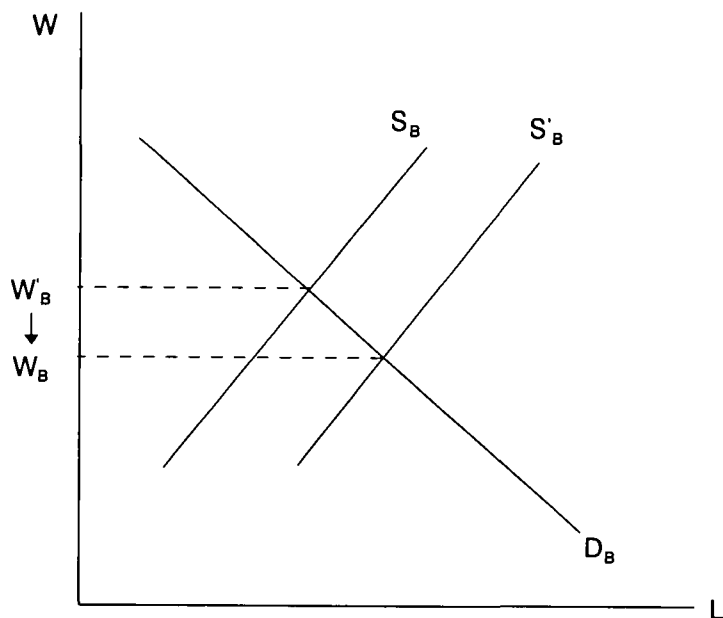
Becker notes that what matters for the economic well-being of the workers involved is not only the average of these market discrimination coefficients but also the distribution of them. If all employers discriminate against the same groups, those who suffer this discrimination will assuredly lose out economically. But if there are enough employers who are not discriminatory, workers of different types will be sorted among employers with different tastes for discrimination. The result might be segregation in the labour market (e.g. type A workers working for type A employers, type B workers working for type B employers) with little adverse effect on the economic well-being of either group.

Becker's analysis of discrimination in terms of prejudicial tastes is appealing. In my view, though, it has two problems. One is that the model allows for discrimination to be practised only through wage discrimination; non-wage discrimination is not allowed for. Employment discrimination may be much more important in many Asian contexts, e.g. against members of scheduled castes in India. The other problem with Becker's analysis is his policy conclusion. He observes that discriminatory employers are knowingly foregoing profits by not employing the most productive workers. If competition in product markets is sufficiently keen, those employers who discriminate would earn sub-normal profits, and for this reason would be driven out of business. Nothing needs to be done about discrimination, he concludes. It will fall of its own weight. This conclusion reflects a greater faith in product market competition than I think is warranted. A more activist approach is almost surely needed.

(iii) Crowding

In this model, which is developed in Bergmann [1971] and Madden [1973], discrimination takes the form of employers systematically excluding members of certain groups from certain jobs. Those who are excluded from the better jobs are then crowded into lesser jobs. Figures 12 and 13 illustrate the consequences.

Suppose that in the absence of crowding, the two sectors A and B would have been equally remunerative. However, sector A employers refuse to consider certain people for jobs. S_A is the true supply of labour curve, S_A' the effective labour supply after the exclusion. The wage in sector A rises (which may be precisely why the exclusion arises in the first place). Those crowded out of sector A are crowded into sector B. There, the supply of labour curve shifts from S_B to S_B' and the wage is bid down from W_B to W_B' . So the effect of crowding is to provide economic gain to those who attain employment in the favoured sector and to impose economic losses on those who are crowded into the lower-paying sectors.

Figure 12. Labour market consequence of crowding workers out of Sector A**Figure 13. Labour market consequence of crowding workers into Sector B**

By allowing for employment discrimination, the crowding model meets one of the objections to the taste model. However, the crowding model does not allow for variation among employers, nor does it allow for wage discrimination within the same sector.

(iii) The imperfect information model

This model holds that employers practice statistical discrimination against members of groups which they (the employers) believe will be of lower productivity [Phelps, 1972]. Statistical discrimination creates the possibility of a self-fulfilling prophecy. For example, if employers believe that women will quit more often than men, and act on that belief by not training or promoting women, women will respond by not remaining on the job very long. (Men would do the same if they were discriminated against in that way.) The policy intervention called for is affirmative action: force employers to give women the opportunity so that women can prove themselves.

(iv) The radical model

This model analyses discrimination in quite different terms from the first three. One adherent of this model, Reich [1977], sees racism and other types of discrimination as "rooted in the capitalist system". Racism, he says, enables capitalists to divide workers' strength and gain at workers' expense. His analysis "follows the Marxian paradigm in arguing that racial attitudes and racist institutions must be seen as part of a larger social system, in placing emphasis on conflict between classes and the use of power to determine the outcomes of such conflicts". To Reich and others, discrimination can be done away with only if the larger social system is fundamentally changed.

I see two problems with the radical model, one technical and one practical. The technical problem is that the model requires that capitalists work together as a class to practice discrimination. In my view, there are great difficulties in coordinating capitalists to behave in racist fashion and large incentives for any single capitalist to cheat and break away from any discriminatory coalition. The practical problem is that a fundamental change in social systems away from capitalism hardly seems to be in the cards at the present time. The world of today seems to be moving in quite the opposite direction.

In summary: Discrimination is pervasive in many Asian labour markets. Yet, the precise mechanisms by which discrimination is manifested at the market level need to be clearly articulated. What substitutions are made by employers? What adjustments by workers? How

do these interact with segmented job opportunities? Many theories have been put forth in other contexts, but much still needs to be specified.

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4 *State regulation, the labour market and economic development: The Republic of Korea*

*Young-bum Park*¹

I. Introduction

The performance of the Korean economy during the past 25 years has been well publicized. GNP per capita increased from 142 US dollars in 1967 to 6,468 US dollars in 1991. Exports have risen by more than 200 times (320 million US dollars in 1967 to 67 billion US dollars in 1992). The unemployment rate has remained stable at around 5 per cent since the mid 1970s.

This high rate of economic growth, led by the State, has been possible, to a large degree, because of a stable supply of cheap labour. Because of the nature of Korea's economic development, the role of the State in the labour market is important in explaining the consequences of Korea's economic growth. Some believe that Korea's market wage policy contributed to the economy's fast growth, and that workers benefitted from this, even though labour institutions such as trade unions were heavily regulated. Some also believe that without the repression of labour rights the consequences of economic growth for Korea's labour market would have been more favourable to workers.

This paper looks at the nature and process of state regulation of the labour market in Korea, along with its effects on labour market outcomes during the country's fast economic development.

II. The nature of state labour market regulation

In most countries, the State plays a very important role in structuring labour use. In Korea, with a history of very authoritarian political regimes,

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state intervention in the labour market has been more extensive than in most other developing economies [Fields, 1984; Fields and Wan, 1989; Rodgers, 1991]. Through a complex system of labour institutions, enforced by state legislation, by control over such labour organizations as trade unions, or by the establishment of new institutions, the Korean government has heavily regulated the whole process of the labour market and its functioning in Korea.

In the early stages of industrial development, as a country with only scarce natural resources, Korea's competitiveness in the international market was achieved through the use of its abundant and cheap labour. Thus, government labour policies were mainly concerned with ensuring a stable supply of manpower, and with meeting such major macroeconomic policy objectives as full employment, strong international competitiveness, and stable prices, all objectives which are generally well regarded in the development literature.

However, development scholars disagree on the consequences state intervention in the labour market has had for Korean workers. Neoclassical economists, including Fields [1984] and Jung-soo Kim [1989], argue that workers in Korea have benefitted from Korea's good economic performance, and as a result labour standards have been improving. Although labour rights were explicitly repressed by the State, Korea's economic success demonstrates the virtues of indirect government regulation of the labour market. On the other hand, neo-institutionalists such as Deyo [1987] and Marshall [1988] believe that Korean workers' incomes would have improved more if free association and collective bargaining had been guaranteed during Korea's industrial development.

Recognizing the importance of Korea's experience in state intervention in the labour market, this paper proposes a perspective which differs from the existing literature. First of all, it is argued that the repression of labour rights in Korea does not necessarily mean that the State intended to reduce workers' welfare in order to promote exports. On the contrary, the State believed that Korean workers' welfare could be better improved through the repression of labour rights, which would secure the industrial peace necessary to maintain a stable supply of labour. An examination of the history of labour legislation reveals that the State continued to increase legal protection concerning individual industrial relations, while at the same time depressing legal provisions concerning collective industrial relations [H. Kim, 1989]. In a sense, the State was much more concerned with individual workers' well-being in order to compensate for deficient labour rights.

Improving the welfare of workers could not be ignored even by the authoritarian political regimes, for to remain in power it was necessary to keep the support of the people, and with Korea's industrial development a growing number of people were becoming industrial workers. The Korean political regime in the 1960s and 1970s is sometimes called a "development dictatorship". Korean dictators often found justification for repressing political rights during Korea's sustained rapid economic development. But if workers were not allowed to enjoy the benefits of fast economic growth, the continued repression of political rights, including labour rights, would not have been possible in the long term. So as long as rising wages did not weaken the international competitiveness of Korean products, which means improvement in labour productivity matched rising wages, the State was willing to accept increasing labour costs. On the other hand, it was assumed that Korean workers could not possibly enjoy high labour standards simply because Korea's economy was very poor. It was rather the rapid growth of the economy through export promotion that was seen as the best way to help workers [Fields, 1990].

In order to gain competitiveness in international markets, labour was extensively regulated by the government. This did not necessarily imply that state intervention in the labour market was intended only for the employer's benefit, although the State did mostly side with management. In order to prevent workers from being exploited by their employers because of the absence of labour rights, the government provided a number of legal arrangements which protected workers and sometimes even encouraged employers to improve working conditions to a suitable level in the light of the stage of development of the economy. Appropriate working conditions were also necessary to encourage cooperation and productive work from workers.

Second, the Korean government has extensively created and manipulated institutions in virtually all areas, not just labour institutions, partly due to Korea's historical background. Korea's modernization began with the invasion by Japan in the early 20th century. Korea was liberated after the Second World War in 1945, but the Korean War broke out in 1950. This historical environment allowed the State to experiment and introduce institutions as it wished, giving it broad powers to promote its export-oriented development strategy in the 1960s. In other words, there did not exist established institutions which could strongly oppose the government's policies. In addition, the political regimes which pursued export-oriented development were authoritarian by nature and were backed by the military. They could more easily create and control institutions. Therefore, state regulation of the labour market and its institutions was a

part of a broader pattern of regulation by the State.

In addition, labour issues were not a major concern of the government. It was recognized in the 1960s that job creation through export promotion would interest workers, as employment opportunities were still scarce. Thus, the State was mainly concerned with the promotion of exports, which in turn would result in improved wages and working conditions, as well as in stable employment for workers. If there were some conflicts between workers' interests in the short term and export promotion, the government did not hesitate to put the latter first. Labour repression was deemed necessary to maintain the industrial peace which would facilitate export promotion.

Third, the repression of labour rights was motivated by political considerations as well as by economic considerations [You, 1990]. The Republic of Korea in the South of the peninsula has been technically at war with the Peoples' Republic of Korea in the North since the mid 1940s and has experienced one of the bloodiest wars in the history of the 20th century. Some even saw the trade union movement, which has political elements in many countries, as the vanguard of communism expansion. Korean political regimes exploited this sort of public suspicion of the trade union movement to help stabilize their power base. The Korean people's deep-rooted fear of the trade union movement goes back to the 1940s, when the first trade union movement after Korea's liberation from Japan was organized by pro-North Korean political factions and posed a real threat to the birth of the Republic of Korea. The Korean Federation of Trade Unions (FKTU), the umbrella organization of Korea's trade unions, was established by a rightist party, which became the ruling party after the birth of the Republic in 1948, and to some degree explains why the FKTU functioned as a anti-communist political force in the 1950s, rather than as an organization concerned with workers' interests.

Due to the military coups in the early 1960s and early 1980s, trade union activities were temporarily suspended and the legal framework concerning the union movement was also changed in accordance with the principles of the emerging political regimes. With the introduction of the "Yushin" Constitution in 1972, which provided for life-time presidency for President Park, labour rights became even more severely restricted.

In summary, labour repression was seen as an economic necessity by those in power, for it was the only means to ensure industrial peace and thereby promote exports, which would inevitably help improve worker welfare and gain the support of the people. The authoritarian political regimes, which remained in power during most of Korea's export-led industrial development period, also needed to control labour in order to

stabilize their power structures as well as to strengthen their power bases in political terms.

III. Labour legislation

Labour legislation was one of the most frequently and openly used mechanisms the State employed to regulate the labour market. The government had the power to enact as well as to amend laws, owing to its authoritarian nature during most of Korea's export-led industrial development period.

Legislation was also a very effective way to intervene in the labour market. One of the more noticeable features of Korea's labour legislation is that an extensive revision of the legal framework concerning labour followed every major political change, as shown in Table 1 (at the end of the chapter). Labour laws were first enacted with the Korean War ceasefire in 1953. They were substantially amended immediately after the two military coups in 1961 and 1980. Recently, with the democratization process which began in 1987, labour laws have again been amended.

Korean labour law has been enforced through a labour administration machinery which includes a number of local labour offices nationwide, governed by the Ministry of Labour. The Ministry of Labour (the Labour Office before 1981) has been able to implement its policy measures effectively through the local offices which are under its direct supervision. A local labour office consists of five divisions (labour standards inspection, industrial safety, industrial accident insurance, employment security and administration). More than two thirds of the total of 2623 labour officials worked in 45 local labour offices as of 1991.

In 1953, with the end of the Korean War, major labour laws including the Labour Union Act (LUA), the Labour Dispute Mediation Act (LDMA) and the Labour Standards ACT (LSA) were enacted. These laws, which reflected the State's intention to institute democratic labour institutions, were, however, basically a replica of Japanese labour laws [C. Kim, 1973; J. Kim, 1970]. Considering the existing economic and social conditions at the end of the war, the labour standards that these laws stipulated were too premature. Due to the nature of these high labour standards, workers as well as management came to recognize, to an extent, that the labour laws were rules which did not have to be followed [S. Kim, 1989].

In the early 1960s, the Third Republic pursued ambitious economic development plans, and revised the labour laws. Under the new laws, union organization and activities were restricted. Political activities by

labour unions were prohibited. The trade union structure enforced the strengthening of national organizations as well as industrial federations. While restricting union autonomy, the labour law revision of the early 1960s strengthened the protection of individual workers' welfare [J. Kim, 1970]. A few labour standards in the LSA which were considered premature were eliminated, while penalties for violating the LSA were increased. The Employment Stability Act (ESA) and the Industrial Accident Compensation and Insurance Act (IACIA) were also enacted. Since a stable supply of qualified manpower was necessary for industrial development, the Vocational Training Act (VTA) was established in 1967 to institute nationwide vocational training centres.

Although the 1963 labour law revision was criticized as being unconstitutional, in reality few problems were caused. Employment opportunities were still scarce enough to, on a few occasions, prompt the State to intervene in the labour relations of individual firms. However, with Korea becoming more industrialized, workers' discontent with poor working conditions became more apparent, reflected in that the working days lost due to labour disputes increased from 1,824 days in 1964 to 65,405 days in 1968 and to 163,352 days in 1969.

In the 1970s, labour laws were revised again. In 1970 union organization and activities of foreign-owned firms were severely restricted. Following the Law Concerning the Special Measures for Safeguarding National Security (LCSMSNS) in 1971, which paved the way for President Park's lifetime presidency, the scope of compulsory arbitration was expanded to all industries. With the "Yushin" Constitution established in 1972, and the January 14 State Emergency Act Concerning Economic Affairs prompted by the first world-wide oil-shock in 1973, the legal framework of Korea was also adjusted to its new political environment.

State oppression of labour rights intensified. In real terms as well as in legal terms, the government became directly involved in actual labour matters through the use of the police and the intelligence agency. Direct and heavy involvement by the State in industrial relations matters in the 1970s was inevitable, for the political regime saw industrial peace as necessary for the fast economic growth, accomplished by export promotion, which would contribute to its political stability and legitimacy as well as to the stability of the power structure itself. Despite the severe oppression of labour rights, the labour law revisions in the 1970s included some measures to improve workers' welfare. In 1975, the coverage of the LSA was expanded from establishments of 15 or more employees to those with 5 or more employees. In the same year, the coverage of state-run industrial accident insurance was also expanded. The problem of obtaining

commitment from workers became more important as Korea's industrialization proceeded further. While the State pursued worker welfare improvement in a paternalistic way, it failed to properly accommodate workers' concerns for better working conditions. Some workers turned to the radical underground union movement. A labour dispute was the catalyst of the political crises in 1979 and 1980, following President Park's assassination.

The "Spring of Seoul", which prompted as many as 407 labour disputes, ended in May 1980 with a military coup led by General Chun, who became the President of the Fifth Republic. With the new political regime, the labour laws were also amended again. With the abolition of the Law Concerning Special Measures for Safeguarding National Security, in 1981, more legal autonomy was granted to the unions [H. Kim, 1989]. However, in the early 1980s state intervention in collective labour relations was even greater than during the 1970s, partly because wage restraint and industrial peace were badly needed: Korea's economy suffered unprecedented negative growth in 1980, due mainly to the second world-wide oil shock and internal political turmoil, and partly because the union movement was seen as potential opposition to the regime in power.

In 1981, the Labour-Management Council Act, which aimed to weaken labour unions and improve labour-management relations, was enacted. A few rules were also adopted to improve workers' welfare, including the Industrial Safety and Health Act, which accommodated workers' concern for the working environment. The scope of the Industrial Accident Insurance and Compensation Act was also expanded. A special law concerning an occupational disease of coal miners was enacted in 1984. The Minimum Wage Act was enacted in 1986. Following the "June 29 Democratization Declaration" pushed through by student-led demonstrations, in 1987, labour laws were amended to make the legal framework more suitable to the new political environment. This revision of labour laws helped to improve Korea's industrial relations, because unions were organized more easily and, as a result, more disputes were settled within the legal framework. In 1989, the opposition parties, who had gained control of the National Assembly in the 1988 general election, attempted to push for further amendments to strengthen labour rights, but this was not realized because of the President's veto.

In 1991, the government proposed the amendment of labour laws to weaken the union movement because it believed the union movement should be considered partly responsible for Korea's recent economic problems: Korea's trade deficit was 7.5 billion US dollars in 1991. However, because of strong opposition from the union movement, including the Federation of Korean Trade Unions, it withdrew its proposal.

This review of Korea's labour legislation history reveals that labour rights concerning workers' representatives have been weak until recently, while legal protection concerning individual workers' welfare was strengthened as Korea's industrialization progressed. On the other hand, since labour repression by the legislature has become less effective, the State has had to depend on more direct and open involvement in the collective labour matters of individual firms, sometimes through the police.

It should also be noted that the government instituted, through legislation, very comprehensive and effective manpower development systems, in order to ensure the stable supply of qualified manpower. In 1967, the Vocational Training Act was enacted, and since then it has been amended several times to accommodate changes in the economic environment. Employment stabilization systems were also institutionalized in the first stages of industrial development, with the enactment of the Employment Stability Act in 1967.

IV. Wage determination rules

It is well accepted that the stable supply of cheap (in a comparative sense) and qualified labour has been a major contributing factor to Korea's economic success over the last three decades. But controversy persists over the nature of wage-setting in the Korean labour market. Neoclassical economists believe that supply and demand reign, and therefore, efficiency prevails in Korea's labour market [Fields, 1984; Castaneda and Park, 1986; Fields and Wan, 1989]. Others believe that the notion of a free market is not appropriate in explaining the wage-determination rules in Korea, and that wages were restrained mainly due to the absence of labour rights [Deyo, 1987; You, 1990].

How the wage-determination rule is perceived depends, to a large extent, on where the perspective begins. From the neoclassical economic viewpoint, Korea's wage determination was closer to the free market model than that of other developing economies. At least, severe distortion of wages by trade unions was not present. From the neo-institutional viewpoint, Korea's wage determination was far from the free market model. The State restrained wage growth through either the oppression of labour rights or through an explicit income policy. Nevertheless, both schools agree that in Korea the State intervened in wage determination and trade unions did not function properly in representing workers' interests in the process.

The principle of state wage policy throughout the export-led industrial development period was that wage growth should be accompanied by

productivity increase, in order to sustain competitiveness in world markets. The government did not hesitate to exercise every possible measure to ensure that this principle was implemented, although its mode of intervention in wage determination was rather indirect through most of the period.

In the 1960s, with job opportunities still scarce, the government did not have to intervene too much. Employment itself was what really mattered to workers. In the 1970s and 1980s, until the union movement gained momentum in 1987, and except for a short period in 1980, labour rights were repressed and trade unions prevented from being involved in the wage determination process. The State was also concerned that employers might take advantage of the absence of labour rights. It urged employers to pay workers according to their productivity increases, partly in order to induce commitment to work as industrial deepening took place. It also made efforts to eliminate low wages and unpaid wages.

In the mid 1970s and the early 1980s after the worldwide oil shocks, the government intervened in wage determination in more open ways. In 1974 and 1975, under the LCSPSNC enacted in 1972 which expanded the scope of compulsory arbitration to all industries, labour inspectors were ordered to make sure that wage increases were accompanied by productivity increases [Jae-won Kim, 1989]. In the early 1980s, wage restraints, as a part of the income policy prompted by the second worldwide oil-shock in 1979, were more openly implemented. The restraint of government employees' salaries was one of the major tools used to induce wage restraint in the private sector. Wage restraint as an income policy was also applied within industrialized economies such as the UK and the US in the 1970s. One of the differences between Korea's income policy and those of the industrialized economies was that Korea's approach was authoritarian rather than cooperative. Another difference was that Korea succeeded, while most industrialized economies did not, partly because strong trade unions did not exist in Korea.

In 1987 and 1988 the State maintained that wage increases should be determined mainly through labour-management bargaining. However, since the latter half of 1989 the government has tried to ensure low wage increases because it views rapidly rising labour costs as a major contributing factor in the recent slowdown of Korea's economy. For example, in 1990, about 300 leading public and private establishments were advised to settle their wage increases to a single digit figure in wage negotiations. However, government wage policy appeared to fail. The 20.3 per cent actual wage increase in 1990 was far above the increase of 9.1 per cent which was reported to government authorities, partly because trade

unions were no longer regulated and also because the overall economic performance was still good despite the tumbling export sector. A similar pattern continued in 1991 and 1992, with wages increasing by 17.5 and 15.2 per cent respectively. In 1989, the state proposal to set up a National Wage Council did not materialize due to union opposition.

The state aim of determining wage increases on the basis of productivity growth seems to have been achieved, insofar as the wage increase was about equal to the productivity growth during the period of state intervention in wage determination [Park and Park, 1989]. It has also been noted that state intervention in wage determination was somewhat more implicit and subtle than other interventions in the labour market, such as the repression of labour rights.

With respect to the impact on Korea's labour market, on the one hand it can be said that the forces of supply and demand are less influential today than they were in the past because of the increased influence of institutions such as trade unions, and yet on the other hand, it can also be said that the forces of supply and demand are even more influential than before, because state involvement in the labour market has decreased.

V. Manpower development: Korea's vocational training system

One labour market institution which has contributed to Korea's economic success, but which has often been disregarded, is Korea's manpower development mechanism. The State has played a very active role in creating and developing this machinery in Korea.

In order to educate the unskilled labour which was rapidly migrating from rural to urban areas, the government realized that a state-run vocational training system was necessary, and in 1967 enacted the Vocational Training Act (VTA). In the early stages of the implementation of this act the State was mainly responsible for training and supplying the manpower needed by industry.

In 1975, an in-plant training programme became compulsory in establishments with more than 499 employees, and this was expanded in 1982 to include those with more than 299 employees. In 1982, the Korea Vocational Training and Management Agency, into which all public vocational training centres were absorbed, was set up to coordinate the activities of those centres more effectively. From 1967, when public vocational training began, to 1988, the number of trainees to go through the system amounted to over 1 million; 31.4 per cent of them were trained

at public institutes, 55.2 per cent at in-plant training institutes and 13.4 per cent at authorized private centres.

The public institutes provide basic training in skills used in the manufacturing sector. Middle school graduates and high school drop-outs, as well as some high school graduates, constitute the majority of their trainees. The training expenses are fully covered by the government. There is a minimal fee for dormitory and food expenses which may be waived, based on the family income of the trainees. Graduates of public institutes have demonstrated an impressive initial employment record since their establishment, with more than 90 per cent finding employment upon graduation. The public institutes also offer evening upgrading courses to workers who are already employed. Workers are paid by their employers and training costs are met by the Ministry of Labour. Since 1986 a retraining programme has been offered for displaced workers using public institute facilities. Under an amendment to the VTA in 1976, private firms with a certain number of employees became subject to a levy that was used to finance public vocational training programmes. The levy is determined annually, based on relative training costs in each industry, and is applied to all firms unless they provide training programmes to a specified portion of their workers. In-plant training programmes cover skill upgrading courses, as well as basic skill training.

It is needless to say that without the manpower developed through this system, the fast industrial development Korea has enjoyed would not have been possible, especially in the 1970s [S. Kim, 1989]. At the same time, the government has been criticized for heavy and improper involvement (not intervention) in manpower development. The state-led manpower development mechanism left little room for industry to identify and develop its own manpower requirements, and has allowed industry to become accustomed to state-provided manpower. In addition, the compulsory in-plant training system made possible by the levy system contributed to labour shortages in the late 1980s, mainly because it was cheaper for industry to pay the levy and recoup it in the market than to provide in-plant training for employees.

It is often pointed out that the massive supply of qualified manpower that resulted from the state-led training system has helped to restrain the wages of blue-collar workers, which otherwise might have risen more rapidly with Korea's fast industrial upgrading [S. Kim, 1989]. Since the Korean government plans to introduce an employment insurance programme in the mid 1990s, the manpower development mechanism itself is expected to undergo structural change in the near future.

VI. The effects of state regulation on the labour market

Table 2 (at the end of the chapter) illustrates the social consequences of Korea's rapid economic development. With its high economic performance, Korea has succeeded in absorbing the massive new labour force which has entered the market. Since 1965, employment has grown at 3.4 per cent annually. The unemployment rate dropped from 8.2 per cent in 1963 to 4.4 per cent in 1970, and then stabilized. With the deepening of Korea's industrial structure, labour force participation rates have remained stable since the mid 1970s. There are now less workers in such relatively low-paying industries as agriculture; the share of the labour force employed in the agriculture/forestry/fishing sectors has decreased from 50.4 per cent in 1970 to only 16.7 per cent in 1991.

Real wages, defined as nominal wages deflated by consumer prices, have grown at an annual rate of 7.5 per cent, which exceeds the growth of wages in all other industrialized economies, including Japan, during their high-growth periods. Income distribution has also improved. The Gini coefficient of wage income decreased from 0.402 in 1970, to 0.3687 in 1980, and then to 0.2886 in 1990. The wage differentials among different sectors of the labour market have narrowed.

In the 1970s, a declining supply of young and relatively uneducated workers in the labour market encountered an expanding demand for such workers, mainly due to the construction boom in the Middle East, and this contributed to the sharp decline in the wage differentials. In particular, through the sustained high economic growth in the late 1970s, which followed the overseas construction boom, male blue-collar wages increased substantially. The government policy of eliminating low wages in the mid 1970s was also a factor in improving wage income distribution in this period [Park and Park, 1984].

The decline in wage income inequality in the 1980s can be explained by both institutional and market factors. The Korean government did not put enough effort into vocational training in the 1980s. For example, the amount of skilled manpower supplied through in-plant vocational training decreased from 89,000 workers in 1980 to 54,000 in 1989. Fewer young workers have entered the labour market due to the aging of Korea's population. Since 1987, Korea's expanding trade union movement has also helped in narrowing wage differentials between blue and white collar workers [Park, 1991].

As Fields [1990] noted, "This evidence admits of only one interpretation: the workers in these economies benefitted from aggregate

economic growth in proportion to their original incomes. They were not impoverished by growth".

As of 1989, 68.2 per cent of all non-farm employees were covered by a state-run industrial accident insurance, and 68.9 per cent of the total population benefit from a state-run medical insurance system. In 1991, the government proposed to expand the scope of the Labour Standards Act to include all establishments with any employees, which would upgrade the labour standards of Korea substantially. This amendment is still being reviewed by the National Assembly.

Some characteristics of Korea's labour market, for which the State is often blamed, are long working hours and a high incidence of industrial accidents [You, 1990]. Working hours in Korea are longer than those of any other country for which relevant data are reported in the ILO Yearbook, although working hours have decreased substantially since the mid 1980s. However, Korea's long working hours should be interpreted as a reflection of the fact that Korean workers can neither afford to enjoy more leisure time, nor is the State wealthy enough to compensate for the income lost due to shorter working hours. Korea's working hours have decreased rapidly, from 51.9 hours per week in 1987, to 48.2 hours per week in 1990 and 47.5 hours in 1992, an outcome of the income effect finally outweighing the substitution effect as income rises. Surely the process of democratization has also helped to reduce working hours in the sense that workers are now able to say "no" to the demand for overtime work by their employers. These shorter working hours have also contributed to the serious labour shortages which Korea has been experiencing in the last few years.

According to the ILO Yearbook, the injury rate in Korea's manufacturing sector is higher than in any other developing economy. This also has to be interpreted with caution. Korean data is based on mandatory reporting of accidents while the data for other countries may be incomplete.

On the other hand, one consequence of state intervention in the labour market has been that management, labour and society as a whole have not been able to adjust to changes in industrial relations. Management, protected by the government in labour matters, has not developed a proper perspective on industrial relations and has not recognized the changes that have inevitably occurred during industrialization. The role of management in the industrial relations system during Korea's rapid economic growth process was weak and inactive. The involvement of the State in industrial relations left little room for employers to play any role. The Korea Employers' Federation (KEF) was set up in 1971. However, because autonomous collective bargaining was prohibited for almost two decades

after its establishment, the KEF did not become an influential institution. In Korea, other organizations such as the Federation of Korean Industries, which helped to build up industries, were more clearly recognized. It was only after 1987 that a proper role was given to the KEF. At the establishment level, employers also did not have opportunities to develop their industrial relations skills and experiences.

Workers, who were disenchanted by the weak unions which failed to adequately represent their interests, increasingly turned to the radical underground labour unions. The implication is that conflicts between labour and management which naturally follow industrialization could not be solved through the systems whose rules and procedures were mainly set up by the State. Evidence of this can be seen in the explosive increase of labour disputes after the "Democratization Declaration" in 1987: 3,749 strikes occurred in 1987, and 1,873 and 1,616 in the following two years.

In some sense, during the last few years, Korea has been experiencing a backlash due to its former repression of labour rights. The trade surplus, which had been increasing since 1986, dropped very substantially in 1989 and went into deficit from 1990. Strong union militancy along with rapidly rising wages are recognized as major factors in Korea's sluggish export performance during recent years.

The economic outcomes helped to stabilize the power structures of Korea's authoritarian regimes during periods of rapid economic development through the promotion of workers' welfare, as the regimes in power intended. On the other hand, rapid industrial growth also contributed to strengthening the potential political power of workers, who constituted a growing proportion of Korea's population. Workers have also questioned the distributional aspects of government policies as their education and income levels have improved. Eventually, these developments helped to strengthen labour rights through political change. In other words, the primary aim of state intervention in the labour market, which was to strengthen the power structures of political regimes, was not realized in the long term, while the secondary objective of improving workers' welfare, which was at the same time a major instrument for achieving the primary aim, was to a large degree obtained.

With guaranteed labour rights, would labour market outcomes have been more favourable in Korea? The analysis required to answer this question goes beyond the scope of this paper. However, recent developments in Korea's industrial relations have brought to light a few interesting elements which permit speculation on this question. First of all, it is highly possible that, with collective labour rights, workers in the covered sector would have been more differentiated from those in the uncovered sector.

One notable feature of the recent wage trend is that wage differentials by establishment size have widened. With more than 6 million workers not even covered by the Labour Standards Act, workers in large establishments have demanded 20-30 per cent wage increases every year. Since 1987, the wages of these workers have risen three times. Even with the recent economic slowdown, these workers who belong to large firms mostly remain protected.

Second, trade unions, as well as individual workers, have become very reluctant to cooperate with management even in a constructive way — partly because labour has not been given enough opportunity to understand the competitive nature of business and to develop broader perspectives, and partly because workers have been instructed to cooperate without their consent for quite a long time. However, when Korea began its industrialization some three decades ago, the situation was similar, while most workers were uneducated and had just migrated from rural areas. With a labour force of this type contributing to rapid economic growth, could the proper exercise of labour rights have been possible? Considering the attitudes and behaviour of some trade unions during the recent era of expanding trade union activities, perhaps it was not possible.

Third, despite the tumbling export sector, the general performance of the economy has been relatively good, mainly because the expanding domestic sector has taken over the role played by the export sector, once the engine of Korea's fast economic growth. As Piore [1990] has suggested, the high wages triggered by the union movement have helped to boost aggregate demand, which has sustained Korea's economic growth in recent years. However, if international competitiveness is not regained, economic growth which mainly depends on the domestic sector will not be sustainable in the long term. Domestic demand-led economic growth would have been even more difficult in the early stages of Korea's economic development when the domestic sector was weak and little capital was available.

VII. Concluding remarks: The role of the State in the future

It is likely that more struggles will have to be overcome before Korean industrial relations can reach an equilibrium where labour, management, and the government play appropriate roles as social partners. Nevertheless, it is clear that Korea cannot sustain its economic dynamism and stability unless the country can survive the current difficulties it faces in industrial relations.

You [1990] has proposed three possible outcomes for the current struggle between labour, management and the State; a Japanese model, a polarized model, and a social-corporatist model. Of these models, the author believes that a Japanese model would be quite possible in Korea. Considering the business structure of Korea, collective bargaining is likely to remain enterprise-based [Kochan, 1991]. Unions in large firms are also reluctant to transfer their powerful bargaining rights to industrial federations and/or a national centre.

In addition, strong union leadership which would be able to unite the many factions of Korea's union movement is not likely to emerge in the near future. The FKTU, the only legitimate umbrella union within the current legal framework, has a long way to go in reshaping its old image and in broadening its base among the rank and file. Within the non-FKTU affiliated unions, which formed a national organization of their own in 1990, severe struggles have ensued, resulting in the birth of another national organization of non-FKTU affiliated unions in 1991.

For Korea's transformation to a new system to be implemented without failure, the role of State is crucial, just as it was during the rapid economic development of the past. The role of the State cannot be disregarded just because it severely repressed labour rights in the past. The failure of the National Council for Economic and Social Affairs (NCESA) underlines this. The NCESA was set up in 1990 in order to promote dialogue between labour and management at the national level by overcoming the problems of Korea's enterprise-based union system. However, it has not produced any constructive results, which was to be expected since the State was excluded [Park and Park, 1991].

However, the mode of state intervention in the future should be different from that in the past. A greater role should be given to management and labour at the enterprise level in allowing them to shape their own industrial relations and human resource policies. In particular, the development of strong human resources and of the industrial relations skills of management is crucial. The State should also complete the process of democratizing labour markets and institutions. Otherwise, a period of inter-union conflict will limit the potential for concerted action among labour, management and the State [Kochan, 1991].

In addition, the State has to make an effort to increase social welfare programmes and improve working conditions for deprived groups of workers. In Korea, more than 2 million people exist on a state-run livelihood protection programme, along with more than 6 million workers who are not covered under the Labour Standards Act. These groups have benefited less than any other from Korea's rapid economic development.

As Korea's industrialization continues to progress, more resources will be available for these deprived groups. A more active role in such policy areas is required of the State as further industrial deepening continues to take place.

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Table 1. Korea's labour history: 1945-90

Year	Labour Acts	Major events		
		Collective industrial relations	Others	Labour
1945	A statute on labour protection including labour dispute mediation was declared.	A statute on wages was declared by the US military authorities.	A national affiliation of procommunist trade unions was organized.	Korea was liberated. US military rule began.
1946		Statutes on maximum working hours (48 hours per week) and child labour were declared.	The Federation of Korea Trade Unions was organized.	
1947			The pro-communist national affiliation of trade unions was outlawed by the US military authorities.	
1948			The Labour Bureau was established under the Ministry of Social Affairs and Health.	The first Republic of Korea was established.
1950				The Korean war broke out.
1953	The Labour Union Act (LUA), the Labour Dispute Mediation Act (LMA) and the Labour Committee Act (LCA) were enacted.	The Labour Standards Act (LSA) was enacted.		The Korean war ended.
1958			The National Council of Trade Unions was organized.	
1960			Two national affiliations of trade unions competed for the national leadership.	The first Republic ended with the April 19 student revolution.

1960			Teachers' unions were organized.	
1961			All labour acts were suspended.	The second Republic ended with a military coup.
1962			All trade unions were dissolved.	The third Republic began.
			Trade union structure was transformed into an industrial union structure.	
1963	The LUA, the LDMA and the LCA were amended.	The Industrial Accident Compensation and Insurance Act (IACIA) was enacted (manufacturing and mining establishments with more than 500 employees covered).	The Labour Office became an independent government agency.	
1967			The Vocational Training Act (VTA) was enacted.	
			The Employment Stability Act (ESA) was enacted.	
1970	A "Temporary" Law (TT) which restricted union activities and labour disputes in foreign-owned firms was enacted.			
			The Korea Employers' Federation was formed.	
1971	Following the LCSMSNC, compulsory arbitration was expanded to include 11 industries.			The Law concerning special measures for safeguarding national security (LCSMSNC) was declared, which followed a National Emergency Declaration.

Table 1. Korea's labour history: 1945-90 (Contd.)

Year	Labour Acts		Major events	
	Collective industrial relations	Others	Labour	Others
1972				The fourth Republic was born with the new "Yushin" Constitution.
1973	The LUA, the LDMA and the LCA were amended.	The VTA and the IACIA were amended.		The first oil shock.
1974	The LUA and the LDMA were amended with the ending of the January 14 state emergency concerning economic affairs.	The LSA was amended (establishments with 5 or more employees covered/some provisions still applied only to establishments with 15 or more employees).		The January 14 state emergency concerning economic affairs was declared.
1976		The VTA and the IACIA were amended.		
1977		The IACIA was amended.		
1979				The second oil shock. President Park was assassinated.
1980	The LUA, the LDMA and the LCA were amended and the Labour/Management Council Act was enacted.	The LSA (remuneration rights strengthened) was amended.	A clean-up process of trade unions took place.	The fourth Republic ended with a military coup.

1981	<p>The Industrial Safety and Health Act (ISHA) was enacted.</p> <p>The VTA and the IACIA were amended.</p>	<p>The Labour Office was expanded to become the Ministry of Labour.</p>
1982	<p>The ESA and the IACIA were amended.</p>	
1986	<p>The LUA and the LDAM were amended.</p> <p>The TI was abolished.</p>	
1987	<p>The LUA, the LDMA and the LMCA were amended.</p>	<p>The June 29 Democratization Declaration was declared by the Presidential Candidate of the ruling party.</p>
1989	<p>The LSA (the coverage of some provisions, which were applied to establishments with 15 or more employees, expanded to establishments with 10 or more employees) amended.</p> <p>The Male/Female Equal Employment Act (MFEEA) was enacted.</p> <p>The LSA (all provisions applied to establishments with 5 or more employees/standard weekly working hours of 44 hours) and the IACIA (the coverage expanded to establishments with 5 or more employees excluding some service sectors) were amended.</p>	
1990		<p>Another national affiliation of trade unions was organized.</p>

Table 2. Korea's social indicators: 1965-89

	1965	1970	1975	1980	1985	1989	1991
<i>Population</i>							
Annual population growth rate (%)	2.34 ¹	1.97	1.61	1.57	0.93	0.97	0.93
Fertility rate	5.40 ¹	4.30	3.5	2.80	1.70	1.60	—
<i>Income</i>							
GNP per capita (in constant US\$)	105	252	594	1,592	2,194	4,968	5,569 ⁴
Gini coefficient	—	0.33 ²	0.39 ^{2,3}	0.3891	0.3449	—	—
Employee compensation to national income (%)	31.80	39.70	39.80	51.60	52.60	56.30	59.7 ⁴
<i>Labour</i>							
Labour force (in thousands)	8,754	10,062	12,193	14,431	15,592	17,971	19,012
Employment (in thousands)	8,112	9,617	11,692	13,683	14,970	17,511	18,576
Employees to total employed persons (%)	32.2	39.0	40.6	47.2	54.1	59.1	60.9
Non-daily employees to total employed (%)	67.7	72.8	76.4	79.9	82.8	83.4	89.3
Unemployment rate (%)	7.3	4.4	4.1	5.2	4.0	2.6	2.3
Hours worked per week	—	51.6	50.0	51.6	51.9	49.2	48.2 ⁴

% employed in agriculture (inc. forestry/fishing)	58.5	50.4	45.7	34.0	24.9	19.5	16.7
% employed in manufacturing	9.4	13.2	18.6	21.6	23.4	27.6	26.3
Labour force participation rate (%)							
both sexes	57.0	57.6	58.3	59.0	56.6	59.5	60.6
male	78.9	77.9	77.4	76.4	72.3	73.3	74.7
female	37.2	39.3	40.4	42.8	41.9	46.5	47.3
Annual growth rate of (nominal- consumer price) wage (%)	—	4.8 (1971-75)	11.6 (1976-80)	5.5 (1981-85)	8.6 (1986-89)	7.5 (1971-89)	—
Wage structure (ratios)	—	—	—	—	—	—	—
University graduate to average	—	2.29 ⁵	2.57	2.39	2.18	1.77	1.71 ⁴
Administrative to average	—	3.04 ⁵	3.41	2.83	2.56	2.13	2.06 ⁴
Male to female	—	2.24 ⁵	2.37	2.33	2.14	1.89	1.86 ⁴
Over 500 employees to 10-29 employees	—	—	1.46	1.26	1.33	1.46	1.35 ⁴
Gini coefficient of wage income	—	0.402 ^{5,6}	0.3985 ^{3,6}	0.3687 ⁷	0.3449 ^{7,8}	—	0.2886
Industrial accidents to total working hours	—	15.87 ²	16.76	11.12 ⁹ 14.29	11.57	7.47	6.70 ⁴
Lost working days due to industrial accidents to total working days	—	3.67 ²	3.29	2.58 ⁹ 2.80	2.68	2.19	2.30 ⁴
Workers covered by state-run industrial accident insurance (in thousands)	161	779	1,836	3,753	4,495	6,688	7,543 ⁴

Table 2. Korea's social indicators: 1965-89 (Contd.)

	1965	1970	1975	1980	1985	1989	1991
<i>Workers covered by state-run industrial accident insurance to total non-farm employees (%)</i>	8.6	26.6	45.6	66.3	59.3	68.2	—
<i>Employment separation rate</i>	—	5.1	3.7	4.8	3.9	3.2	3.2 ⁴
<i>Length of time in job (years)</i>	—	2.5	2.4	2.8	3.6	4.0	—
<i>Unionized employees (in thousands)</i>	3.2	473	750	948	1,004	1,932	1,886 ⁴
<i>Unionized employees to total regular employees (%)</i>	22.2	20.2	23.0	20.1	15.7	23.4	21.7 ⁴
<i>Disputes occurred</i>	—	—	546 (1975-79)	829 (1980-84)	541 (1985-86)	7,238 (1987-89)	556 (1990-91)
<i>Housing</i>							
<i>Floor space per capita</i>	—	6.8	8.2	10.1	11.1	—	—
<i>Population with running water to total population (%)</i>	20.9	33.2	43.1	54.6	67.2	78.0	—
<i>Housing units to households (%)</i>	81.3	77.8	74.4	71.2	69.8	70.9	—
<i>Housing ownership (%)</i>	—	68.2	63.1	58.4	53.6	—	—

<i>Education</i>						
High school graduates and over to total population aged over 6 (%)	9.7 ¹	15.1	19.7	26.6	36.1	—
<i>Poverty</i>						
Livelihood protection persons (in thousands)	3,851	2,420	1,290	1,829	2,273	2,353
Livelihood protection persons to total population (%)	13.1 ²	7.9	3.7	4.9	5.6	5.5
<i>Others</i>						
State-run medical insurance beneficiaries (in thousands)	—	—	3,202 ¹⁰	9,113	17,878	28,906 ¹¹
State-run medical insurance beneficiaries to total population (%)	—	—	8.8 ⁶	23.9	43.8	68.9
Energy consumption per capita (10 ³ kcal)	—	0.55	0.66	0.99	1.15	1.55
Telephones per 100 persons	0.8	1.5	3.0	7.1	16.0	27.8

¹ 1966. ² These figures were estimated by Choo [1987]. ³ 1976. ⁴ 1990. ⁵ 1972. ⁶ These figures were estimated by Park and Park [1984]. ⁷ These figures are estimates. ⁸ 1986. ⁹ The scope of compensated industrial accidents was expanded in 1981. ¹⁰ 1974. ¹¹ 1988.

Source: Economic Planning Board, *Social Indicators in Korea*, 1990.

5 *Labour institutions and economic development in the Republic of Korea*

Jong-il You¹

This paper investigates the nature and the role of labour institutions in the economic development of the Republic of Korea (Korea, hereafter) during the last three decades. The conventional wisdom on this issue can be summed up in one phrase: “wage-determination by free market forces”. From the observation that the labour unions were very weak and the State largely abstained from any measures that would jack up labour costs, it is concluded that wages were determined by free market forces with little institutional influence. This is said to have had salutary effects on both growth and equity. Correct pricing of labour allowed efficient resource allocation reflecting comparative advantage in labour-intensive products, and the growth of labour-intensive exports fuelled rapid growth of GNP [World Bank, 1987; Krueger, 1988; Fields, 1990]. Also, by creating jobs for the unskilled labour and reducing unemployment, it contributed to improving equity in the distribution of income [Ranis and Fei, 1975; Fields, 1984]. The lesson from Korea with respect to labour institutions, then, is that developing countries must do away with such institutional interference with the workings of the labour market as “high minimum wages, militant unionism, or overzealous social legislation” [Fields and Wan, 1989].

One problem with this conventional wisdom is that labour institutions are more or less endogenous, and therefore may not be entirely subject to manipulation by the policy authority. The recent developments in Korea illustrate this point. Since the political democratization process began in 1987, the labour institutions in Korea have undergone significant changes, including a dramatic surge in union organization and strength and the introduction of the minimum wage law and the national pension system. It is no longer possible to characterize the Korean labour market as “free”

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even in conventional terms. These changes are endogenous because they have been brought about by the social forces created in the course of economic development rather than by an autonomous shift in the government policy stance. Given the endogeneity of the labour institutions, it may be quite pointless to preach the virtues of a free labour market based on the Korean experience. This is not to argue that no aspect of the Korean success can be transferred to other developing countries or no institutional change can be engineered. It does mean, however, that the scope for consciously engineered institutional change is circumscribed by historical and social factors peculiar to each country [Amadeo and Banuri, 1991].

If the conventional wisdom is too naive as a policy prescription, is it a solid positive explanation of the nature and the role of labour institutions in Korea in the pre-1987 "authoritarian" period? There is certainly a grain of truth in the orthodox view. The importance of labour-intensive exports in jump-starting the Korean economy in the 1960s and in the subsequent growth of output and employment can hardly be questioned. That this would have been difficult had the level of wages been much higher cannot be disputed either. Nevertheless, the conventional wisdom on the role of the labour institutions in Korean development is misleading or unenlightening at best. There is an accumulating body of evidence against the orthodox view that the secret of Korean growth lies in conforming to comparative advantage [Luedde-Neurath, 1986; Amsden, 1989; Chang, 1991]. It shows that the Korean State deliberately violated the principle of comparative advantage (static efficiency) in pursuit of upgrading the industrial structure towards higher-productivity industries (dynamic efficiency). This meant establishing capital-intensive industries and pursuing import-substitution, sometimes overriding the objections of the international lending agencies as in the case of the integrated steel mill. The contribution of export-oriented labour-intensive industries in Korea was not simply exploiting the existing comparative advantage but, more importantly, by generating the vital foreign exchange, allowing the rapid industrial upgrading which required a rapid expansion of imports.

While the critics of the conventional wisdom on Korea have convincingly shown that the Korean State was highly interventionist, distorting prices and violating comparative advantage, few have challenged its characterization of the Korean labour market. I have earlier criticized the view that the Korean labour market is a "free" labour market, on the ground that the Korean government heavily intervened in the labour market [You and Chang, 1991]. Some conventional economists do acknowledge this fact [Fields and Wan, 1989]. But they still argue that wages in Korea

have been determined at the market-clearing equilibrium level.² Although I will argue that notions like market-clearing and competitive equilibrium are hardly applicable to the Korean labour market, my disagreement is not so much with what they say as with what they do not say. No one would disagree with the argument that a country with low productivity cannot afford to have high wages.

What is missing in the conventional wisdom is how a country gets to have a "competitive" level of wages. Rather than invoking the mythical free labour market with no institutional distortions and state interventions, we need to ask how the actual labour institutions and state interventions in Korea worked to produce competitive wages. There are also other important missing parts in the conventional wisdom. In the process of economic development, a vital role of the labour market and labour institutions is to promote industrial learning and skill formation in order to back up the process of industrial upgrading and structural change. This being an area which is fraught with market failures, a free labour market may not be up to the task. Since structural changes in the economy bring about changes in the distribution of income and power, a rapid process of structural change inevitably heightens conflict among various social groups. Therefore, another key role of the labour institutions is to resolve or otherwise manage such conflict. That these important questions are unanswered in the conventional wisdom is not an accident. It is an inevitable consequence of the exceedingly narrow conception of institutions in the neoclassical theory. In the following section, therefore, I present a brief sketch of an alternative perspective with an emphasis on the role of labour institutions in conflict management and industrial learning as well as wage formation. Section II describes the characteristic features of the labour institutions in Korea in the areas of labour rights and conflict management, wage formation and welfare, and work organization and industrial learning. In section III the role of labour institutions in the Korean development process is assessed. The focus here is on the role of labour repression and other state involvement in managing capital-labour conflict, the relationship between wages and the growth process, and the role of labour institutions in promoting industrial learning and training. The fourth section reviews the post-1987 developments and discusses the causes and effects of the institutional changes. The concluding section provides a brief summary.

² This argument is reminiscent of the "virtual free trade" thesis that the export subsidies and import restrictions in Korea more or less cancelled out each other [Lal, 1983; see Chang, 1991, for a critique]. In any case, when other prices are distorted, it is not clear why equilibrium wages should improve allocative efficiency, not to mention spur growth.

1. The role of labour institutions: A conceptual discussion

In the orthodox neoclassical theory, institutions are considered as artificial constraints on the free interactions (i.e. market exchanges) among atomistic individuals. Thus, a free labour market means one with no institutional distortions such as artificial entry barriers created by labour unions, institutional wage-setting through collective bargaining, and state interventions such as minimum wage laws, social security, health and safety regulations and so on. However, this is an example of the so-called “Nirvana” approach [Demsetz, 1964], since an institution-free market not only does not exist but, if it existed, would be hopelessly unworkable.

First, no market can exist without a system of property and other rights. As emphasized by the Property Rights school, market exchange involves not only a transfer of goods and services but a transfer of property rights. A clear definition and enforcement of a system of rights is a pre-requisite for a well-functioning market.³ Who defines and enforces the system of rights? This essential question is avoided in the neoclassical theory by implicitly assuming that a system of rights is somehow given and everyone agrees on it [see Buchanan, 1975]. In most cases property rights and other individual rights are defined and sanctioned by two institutions — customs and laws of the State. Moreover, given the connection between the distribution of rights and the distribution of income, there are bound to be disputes over the existing system of rights and other forms of conflict. This means that it is necessary to have an enforcement system and other institutions to deal with conflicts over the system of rights.

The second reason why an institution-free market is an illusion has to do with the fact that the acquisition and processing of information is costly and imperfect [North, 1990]. Pure market coordination under these conditions will be highly inefficient. For one thing, individuals cannot invest in information acquisition and calculate optimally, because they do not know the value of such investments prior to making the investments [Arrow, 1962]. For another, and more important, institutions can save information costs in a variety of ways [see Hodgson, 1988, ch. 8 and 9]. Institutional rules of coordination — informal social conventions as well as formal rules — can reduce the need for costly exercises on the part of

³ Therefore, the development of markets requires a strong State. One of the chief difficulties in the market reforms of the former socialist countries, especially Russia, is precisely the weakening of the State and the consequent chaos in the market.

individuals to try and assess the intentions of the others.⁴ Institutions such as social norms and formal organizations like firms can also reduce cheating and, thus, monitoring costs. Finally, as Nelson and Winter [1982] have emphasized, institutional routines serve as repositories of non-codifiable knowledge and skills. This means that a production function cannot be defined as an institution-free concept.

To sum up, institutions that provide a system of rights and rules of coordination are a necessity without which the market cannot function effectively. While this applies to any real world market, the idea of a free market becomes particularly vacuous when it is applied to a labour market. This is because of the peculiar nature of labour as a commodity. Since it is practically impossible to specify exactly what workers will do in advance and to monitor exactly what they actually do⁵, the labour market is fraught with acute informational problems and there is a great scope for institutional solutions. Moreover, labour power is inalienable from the person who possesses it. Thus, labour rights are not simply property rights but personal rights. This means that problems of conflict and control are especially acute in labour exchange, and that labour markets are bound to be highly politicized and regulated.

Although it is beyond the scope of this paper to develop a general theory on the role of labour institutions, the above discussion helps us to identify some key issues. In the neoclassical view of institutions, their significance lies exclusively in distorting prices and, therefore, allocation of given resources; hence, the exclusive focus on the wage-setting institutions. Although the importance of wage-setting institutions cannot be denied, this view misses two fundamental points. Since demand and supply arise and operate on the basis of a given system of rights, it is meaningless to say that wages are determined by market forces without reference to the underlying system of rights.⁶ It seems that what the proponents of a free

⁴ Rules of the road provide an example. An institution-free (pure market) interaction on the road will mean, for instance, that you have to get out of your car and negotiate a safe passage every time you come across another vehicle.

⁵ As Marx [1976] emphasized, it is the capacity to work (labour power) rather than the actual labour services (labour) that is exchanged in the labour market.

⁶ If there is a clear way of distinguishing between a change in the system of rights and an intervention in the demand-supply mechanism, a free labour market could be defined as one with no intervention in the demand-supply mechanism given *any* system of rights. However, such a distinction is impossible. For example, banning child labour is no different from minimum wages laws in that they both jack up wages. In the case of, say, collective bargaining rights or health and safety regulations, both the labour rights and the demand-supply mechanism are affected at the same time.

labour market or market-determined wages have in mind is a labour market based on some minimal labour rights, although it is never clear exactly what these minimal rights are. It is worth noting that the banning of child labour and slavery, regulation of female labour and other labour standards which are now accepted as minimal labour rights have been won through bloody battles against those who opposed these rights as artificial distortions of a free labour market. If the State is going to enforce a system of minimal labour rights unacceptable to workers, labour repression will be unavoidable.⁷ In general, how to define labour rights and how to deal with the capital-labour conflict are the central tasks of labour institutions (and, of course, the State).

The second fundamental point is that, unlike the presumption of neoclassical economics, resources are not given independent of institutions. For example, work norms, routines and the nature of work organization — institutional rules of coordination among workers — will have a critical influence on the productivity level and its growth (learning and skill formation). Labour rights also have implications for productivity, since they determine the incentive structure as well as the distribution of income. As an extreme example, if a worker is entitled to a certain income regardless of his or her performance, productivity will be in general very low. A more useful example is that if a worker has no degree of job security, he or she will be less motivated and, in particular, make no efforts to acquire firm-specific skills.

II. Characteristics of the labour institutions in Korea

1. Labour rights and conflict management

Although the conventional wisdom on Korea is usually silent about the subject, the State intervened forcefully to suppress labour organizations and minimize industrial unrest. In fact, labour repression has been high on the agenda of the critics of the Korean model of development. Labour repression in Korea has to be understood within the context of its political landscape, in which left-wing political parties are strictly banned and labour unions barred from any political activities. The labour movement in Korea

⁷ Therefore, wages are “political prices” à la Oskar Lange. North [1990], p. 66) makes a similar observation on the cost of capital: “Moreover, behind the supply of and demand for capital are still other institutions and organizations. ... Probing still more deeply into the institutional structure reveals political institutions that define formal constraints.”

has always been regarded as a political threat to the regime and, therefore, labour problems have usually been treated as a "national security" issue rather than a pure economic issue [see Choi, 1983, for a political analysis of the Korean labour movement]. In a political system that thoroughly "excluded" labour, the Korean State developed a highly repressive system of labour controls, with the police and the security forces at the forefront of the management of labour conflicts [Deyo, 1989]. Trade union rights, although legally recognized for most periods and for most sectors, were so restrictive that the State was able more or less to suppress effective exercise of union power [see You, 1990, for a brief historical review].

One issue that requires an immediate clarification is whether labour repression in Korea can be viewed simply as an attempt to prevent seller collusion and promote atomistic competition in the labour market. This free-market view of labour repression is questionable, not only because of its crude reductionism. While this view assumes that a labour market free from unions will determine the "right" wage rates, the Korean State apparently did not have much faith in market-determined wages. Thus, labour repression and other wage restraint policies were employed when real wages were rising rapidly above productivity growth [You, 1990]. More importantly, the Korean State was concerned with not merely having the "right" wages, but minimizing capital-labour conflict to secure "industrial peace" (i.e. good "investment climate") and motivating the workers to improve productivity. This led to various state interventions which are against the spirit of the free market model. In order to minimize capital-labour conflict, the Korean State applied not only sticks (repression) but also carrots ("appeasement" policies); and, in order to motivate the workers, it resorted to unconventional "mobilization" policies. That is, state involvement in the management of capital-labour conflict in Korea went beyond mere political repression of labour, combining it with appeasement and mobilization policies.

The appeasement policies were aimed at both the union officials and the rank-and-file workers. The State tried to co-opt union officials through measures like levying of compulsory union dues and appointing top union officials to cabinet positions. It also tried to appease the rank-and-file workers by offering, within limits, some protective measures. The most notable among such measures taken in the 1970s were the creation of the national industrial accident insurance, the legal sanctioning of the priority of wage claims over creditors in case of bankruptcy, and the active promotion of firm-level welfare schemes such as provision of secondary education on company premises, dormitories, medical facilities, etc. [see Choi, 1983].

The mobilization policies refer to the attempts to nurture a high standard of work ethic and co-operative attitudes among workers, reminiscent of those in the socialist countries. (The Korean State believed that neither the preferences nor the production functions are given!) In the 1960s the mobilization attempt was not much more than exhorting the "industrial soldiers" to work harder in "fighting the patriotic war against poverty". In the 1970s a massive and elaborate labour mobilization programme called Factory Saemaul Movement was launched to cope with the aftermath of the first oil-shock and the challenge of the Heavy and Chemical Industrialization drive.⁸ The ideological campaign to promote the idea of "enterprise family" and hard work was complemented by institutional reforms. The Labour-Management Council was created as the institutional vehicle for promoting capital-labour collaboration at the firm level, ultimately intended to replace trade unions. Also, work-teams (e.g. quality circles) were created to build co-operative work practices with the aim of cost reduction and quality/productivity improvement.

Therefore, labour repression in Korea must be understood as a part of conflict management by the State within the context of its political-economic governance structure, rather than as a mere free market policy. It must also be noted that the Korean State circumscribed private property rights to no less extent than labour rights in order to harness private capital to serve its development objectives. One revealing episode is that, upon assuming power by military coup in 1961, the late president Park immediately rounded up the business elites for illicit accumulation of wealth and struck a bargain in which light sentences were exchanged for their promise to cooperate with the government. The ensuing nationalization of the banking system, along with tight control of the scarce foreign exchange, provided the State with powerful means of directing investment decisions, thereby compromising what is arguably the most fundamental prerogative of the capitalists.⁹ Capitalists as employers were not free from state intervention either. On the one hand, they faced little constraint from the unions in arbitrary uses (or, rather, abuses) of management rights, since they could rely on the State to crush independent and militant unions and put down strikes forcefully. On the other hand,

⁸ This is conceived as the urban equivalent of the famous rural mobilization programme called "Saemaul Movement". Like the Maoist rural mobilization programme, it pushed for construction of rural infrastructure (irrigation, sanitation, roads, etc.) through semi-compulsory labour.

⁹ The Korean State often intervened in the affairs of individual firms (e.g. ordering Daewoo to take up shipbuilding in 1978).

however, the Korean State also constantly intervened in firms' labour management in an attempt to minimize capital-labour conflict through numerous directives [Amsden, 1989, p. 133]. Examples of such intervention include state directives to establish the above-mentioned Labour-Management Council and to refrain from laying off a large number of workers in times of recession.

2. *Wage-setting and welfare institutions*

There is wide agreement that the labour unions exerted little influence on wage formation during the authoritarian period.¹⁰ This was a predictable consequence of labour repression. In unionized firms, wages were settled through annual bargaining, usually during the "spring wage offensive" modelled after the Japanese practice. However, the unions covered a relatively low proportion (never more than a quarter) of the eligible workers and were often company-dominated [You, 1990]. The wage bargaining system is also highly decentralized, since the labour unions are organized at the enterprise level.¹¹

Apart from restricting the labour rights and therefore tilting the balance of power against labour, the influence of the State on wage formation was relatively minor. Its direct intervention in wage formation was concerned with two issues. One was a policy of wage restraint when real wage growth was outracing productivity growth. But the highly decentralized wage formation implied the lack of an institutional framework to implement such a policy effectively. The only teeth in the annual announcement of wage guide-lines by the government (started in the late 1970s) was the threat of credit restrictions to firms that would grant higher wage increases [Nam, 1984]. Although it is believed to have depressed real wages in the early 1980s [Fields and Wan, 1989], the severe repression of labour unions and the economic recession in this period make it impossible to judge how much, if any, of wage depression is due to the policy of wage restraint. Another concern addressed by the wage policy was the existence of low-wage workers (especially since the early 1980s), but it is not clear if the "administrative guide" to raise wages of those at the bottom of the scale had any real impact.

¹⁰ By one estimate, the wage differential between the unionized and non-unionized workers in the textile and chemical industries was about 7 per cent in 1980 [Park and Park, 1984].

¹¹ The national union centre and its constituent industrial unions have little power and, until recently, functioned mainly to moderate wage demands, implement government policies and discipline recalcitrant locals [Deyo, 1989].

Table 1. Rates of unemployment and underemployment, 1963-86 (%)

	1963	1968	1973	1978	1983	1986	1990
A: Unemployment	8.2	5.1	4.0	3.2	4.1	3.8	2.4
B: (non-farm)	16.4	8.9	6.8	4.7	5.4	4.7	2.9
C: Underemployment	8.7	5.4	3.8	1.0	0.5	0.9	—
D: (non-farm)	4.6	1.6	1.5	0.4	0.4	0.8	—
A + C	16.9	10.5	7.8	4.2	4.6	4.7	—
B + D	21.0	10.5	8.3	5.1	5.8	5.5	—

Note: Underemployment = Employed less than 18 hours/week.

Sources: Economic Planning Board; Ministry of Labour.

The decentralized wage-setting, weak union power and the relatively minor role of the State in wage formation lend support to the claim that wages are determined by market forces in Korea. But this does not mean that Korean wages reflect the market-clearing equilibrium in a perfectly competitive labour market. The existence of a huge pool of surplus labour in the rural sector, coupled with rather high urban unemployment rates, makes it difficult to apply the notion of market-clearing equilibrium to the Korean labour market at least until the late 1970s.¹² As Table 1 shows, the urban unemployment rate only gradually declined from around 16 per cent in 1963 to about 7 per cent in the mid-1970s. Since the late 1970s, it remained around or below 5 per cent. Apparently, what brought down unemployment over the years is growth (of the employment capacity) of the economy rather than market clearing in a free labour market [see You and Chang, 1991, for further discussion on this issue]. Moreover, market forces themselves operate within the institutional context. Important institutional influences on wage formation can be found at both the firm level (e.g. bonuses and seniority-based wages) and the economy-wide level (labour market segmentation).

The practice of bonus payment is widespread in Korea, although its importance varies widely according to companies and occupations. The average proportion of special cash payments, of which bonus payment is the largest item, in total wages was 12 per cent in 1980 and 17.2 per cent in 1988 [Ministry of Labour, 1989]. Equally widespread is the seniority wage system. Korean firms usually determine starting wages according to

¹² Bai [1987] estimates that more than 11 million outmigrated from the rural areas during the period 1963-1982. Labour reserves in the household sector still remain unutilized to a large extent.

the characteristics of the person concerned (education and sex) rather than the task the person performs. Then an "annual base-up" is added to the starting base wage as the length of service increases [Park, 1988]. The importance of seniority, relative to task or performance, as a criterion for determining pay scales tends to be greater in larger firms than in smaller firms [You, forthcoming, a].¹³

The segmentation of the labour market in Korea is sharpest across gender and educational attainment. Models of wage differentials based on human capital theory assume that the actual wage differential across sex and educational attainment reflect differences in the quality (productivity) of labour. There are, however, reasons to believe that this is not the whole story. The wage differential between male and female workers is one of the highest in the world [Amsden, 1989, ch. 8]. Also, the wage differential between high school graduates and college graduates and between production workers and non-manual workers are much bigger than in other countries [J. Lee, 1983].¹⁴ It is difficult to think of any reason why the productivity differentials between these categories, if indeed there is any, should be particularly large in Korea. Nor is there evidence that it is a result of excess demand for male educated workers (in fact, unemployment among the highly educated has long been a problem in Korea). It is more likely a result of deep-seated cultural prejudices against women and manual work. When such prejudices are institutionalized in various discriminatory practices, competition is inevitably limited and the labour market is segmented. One facet of this is, for example, that female workers are seldom promoted to supervisory or managerial positions and, in most cases, are expected to leave the firm upon marriage.

The segmentation of the labour market, especially along gender lines, is closely related to the inter-industry wage differentials, which are also unusually high by international standards [Krueger and Summers, 1986]. As noted in the introduction, Korean industrialization stood on two legs — labour-intensive export-oriented industries and capital-intensive import-substitution industries. The inter-industry wage differential in Korea is

¹³ The prevalence of bonuses and the seniority wage system reflects the fact that the business practices and institutions in Korea have been shaped under the influence of Japan. Korea began modern economic development under Japanese colonial rule (1910-1945). Moreover, President Park, who initiated the 5-year economic plans and outward-oriented industrialization, consciously followed the Japanese model.

¹⁴ These are of course all related. The proportion of college graduates among female workers is much lower than that among male workers (most female college graduates stay out of the labour market); women are disproportionately represented among production workers [You, 1990].

Table 2: Capital intensity and relative wages, 1985

	Highly K-intensive	Moderately K-intensive	Intermed. K-Intensity	Moderately L-intensive	Highly L-intensive
K-L Ratio ¹	4.57	1.63	0.96	0.70	0.22
Wages ¹	1.56	1.32	1.06	0.81	0.72
% Female	9.8	14.1	34.8	57.0	64.3

¹ Ratio to the manufacturing average.

Source: You [forthcoming, a].

highly correlated with capital-intensity, which in turn is highly correlated with the sexual composition of the work force (see Table 2). The picture that emerges out of this is the co-existence of labour-intensive export-oriented industries, employing predominantly female labour and paying relatively low wages, and capital-intensive import-substitution industries, employing predominantly male labour and paying relatively high wages.

While employment is the most important source of income everywhere, it has been particularly so in Korea due to the meagre social welfare provision by the State on the one hand and the firm-centred welfare provision on the other. Until recently, Korea had no unemployment insurance nor social security system. In terms of the share of social expenditure in central government expenditure (8.1 per cent in 1985), Korea ranks among the lowest in the world [You, forthcoming, a]. As Dreze and Sen [1989, ch.10] point out, the first priority in the welfare policy of the Korean government was employment creation. The central role of employment in welfare was further enhanced by the firm-centred welfare provision. The State encouraged firms to act as not merely employers but also welfare institutions, sponsoring various welfare schemes as mentioned above. A related point is that wages are in part tied to welfare needs of workers, as illustrated by such payments as family allowances and education grants to their children. The institution of the seniority wage system itself can be understood in these terms, since workers' age and needs are closely related.¹⁵

¹⁵ One way of rationalizing the seniority wage system in the neoclassical framework is to consider seniority wages as deferred payments to old workers for some of the work they did when young. Here, the deferred payments act as an incentive for young workers not to shirk. But this cannot be the whole story in Korea, since the econometric evidence shows that age is more important than the length of employment in explaining the wage structure [see Ito and Kang, 1989].

3. *Work organization and industrial learning*

Behind the exclusive attention to wage determination in the conventional analysis of labour institutions lies the naive conception of the production process as a one of combining pre-determined quantities of various inputs according to a specified technique of production. That is, if it is known exactly what a worker will do (quantity and quality of the labour input), the only thing that remains to be determined is the wage rate. However, neither the quality nor the quantity of labour can be determined at the point of labour contract (imperfect information), and various labour institutions play a critical role in determining the actual productivity of labour. Here, I want to focus on two kinds of such institutions: work norms and work organization. The former refer to the social norms regarding work and leisure, and the latter is about how workers are monitored and how jobs are designed.

It has been noted by many observers that Korean workers tend to work long and hard. The evidence on the work hours is indisputable. But, for the "hard" part, there is no concrete evidence apart from episodic observations [e.g. Kearney, 1991]. It is conceivable that the high accident rates in Korea owe something to the high intensity of work, since they are higher in Korea than in not only the advanced countries but also other developing countries like Mexico and Argentina [You, 1990]. In any case, to the extent that it is true, why Korean workers work long and hard cannot be explained by some immutable work ethic or preferences. In fact, there is a growing concern in Korea in recent years about the waning of the work ethic, indicating that work norms are a product of socio-economic conditions.

It is not easy to explain how work norms are formed and changed. A few relevant observations can, though, be suggested. The abject poverty to which most Koreans were subjected for a long time provided a fertile ground for economic incentives to induce hard work. Needless to say, however, a long history of poverty is not a sufficient condition for hard working norms to develop. Some institutional conditions may provide better clues. First, the employment-centred welfare institutions meant that the cost of job loss was extremely high and consequently it was relatively easy to impose discipline on workers.¹⁶ Second, the education system in

¹⁶ See Schor [1988] for an empirical study on the relation between the cost of job loss and work intensity. It is notable that, until recently, the only substantial welfare scheme for the working class in Korea was the Industrial Accidents Insurance. Unlike other welfare measures which reduce the cost of job loss, it actually encourages hard work.

Korea puts a great emphasis on discipline [McGinn et al., 1980]. The compulsory military service is also a factor in producing a disciplined work force. Yet another influence on the formation of the work norms is the mobilization policies discussed above.

One important aspect of work organization is the degree to which it embodies the principles of Taylorism.¹⁷ This has been at the centre of the debate in the Western countries [e.g. Braverman, 1974]. In general, Taylorism can increase the level of productivity through detailed division of labour and "scientific" monitoring of workers, but in the long run the growth of productivity through active engagement of workers in the industrial learning process will be hindered [Pagano, 1991]. While there has been little research in this area in Korea, Amsden [1989] and You [forthcoming, a] argue that organization of work in Korea tends to be less Tayloristic than in the typical Western countries, especially in capital and knowledge-intensive industries. This argument is based on the observation that the typical Korean production management has a strong focus on the shop-floor. The number of layers of management has been kept quite small and engineers keep in close contact with the ranks. In addition, a substantial part of the work force is formally involved in quality control and process improvement.

There are several plausible reasons why work organization in Korea has developed in a relatively non-Tayloristic direction. One is the Japanese influence in shaping management practices both through the lingering colonial legacy and the heavy dependence on Japanese technology [see Kaplinsky, 1988 and Aoki, 1988 on the non-Tayloristic nature of the Japanese work organization]. Another is the challenge of building modern industries through rapid learning, starting from a virtually non-existent knowledge base. The lack of knowledge about the production processes on the management side made it difficult as well as unrewarding to apply top-down Tayloristic control, while the absence of craft union traditions rendered it hardly necessary to do so. Finally, compared with other NICs, Korea relied least on foreign direct investment and licensing, and most on turn-key plants and imports of capital equipments [Kim, 1987]. This meant a greater reliance on learning at the local level, an important element of which is what Ranis [1984] calls blue-collar R&D activities.

While work norms and work organization are extremely important in

¹⁷ The essence of Taylorism is the separation of execution from conception. This idea is clearly expressed in the following: "all possible brain work should be removed from the shop and centred in the planning and laying out department" [F. Taylor: *The principles of scientific management*, pp. 98-99, cited by Kaplinsky, 1988, p. 454].

understanding industrial performance and productivity growth in Korea, the relevance of the conventional human capital variables like education and skill training should not be discounted either. It has been widely noted that Korea's investment in education was outstanding by any measure and that this contributed heavily to her rapid economic growth. Korea had an unusually highly educated labour force at the start of rapid industrialization thanks to compulsory primary education, which raised the literacy rate from 22 per cent in 1945 to 90 per cent by the early 1960s [Harbison and Myers, 1964]. By 1986, more than 90 per cent of the entrants in the manufacturing sector had at least some secondary education [You, forthcoming, a]. The State also tried to design and control the education system to serve the needs of industry, establishing technical vocational high schools and expanding the enrolment quota for colleges and universities in favour of science and engineering. This was complemented by public vocational training programmes and the pressure on the large firms to provide on-the-job training (see section III. 3 below).

III. The role of labour institutions in Korean development

1. Labour repression and conflict management

In the conventional wisdom, the most important benefit of suppressing labour organizations is seen as ensuring equilibrium wages [Berry, 1987]. As we discussed in the above section, it is difficult to apply the notion of equilibrium wage in Korea (as much as it is anywhere). It would be more reasonable and relevant to argue that suppression of labour rights and organizations contributed to keeping real wages at internationally competitive levels. This no doubt contributed to the fast export growth. However, it is wrong to argue that labour repression kept wages low and that low wages were the secret of export successes, as some left-wing critiques suggest [Kreye, 1980]. For, in fact, real wages grew extremely rapidly.

Labour repression in Korea also contributed to contain the unfair inequality between the well organized and the rest (such as those in the informal sector). This does not of course mean that there were no unfair inequalities in the labour market. On the contrary, as shown in the discussion on labour market segmentation, there were plenty of such inequalities. Nonetheless, preventing powerful organization of sectional interests from creating artificial rents may well have a special significance apart from reducing inequalities. Olson [1982] argues that proliferation of "distributional coalitions" that seek to redistribute rather than create wealth causes

economic decline. For example, powerful union organizations (and powerful trade associations) may secure higher incomes through protection of their industries [Fields, 1990]. In such a situation it is difficult to expect high rates of productivity growth under protection, because their rent-securing ability mitigates the incentives for increasing productivity [You, 1991, ch. 3]. Suppression of distributional struggles in Korea also contributed to keeping the inflation rates from exploding even as high rates of investment were maintained through such inflationary measures as large-scale foreign borrowing and rapid domestic credit expansion [see Rowthorn, 1977, for the conflict theory of inflation].

The political repression of labour, in conjunction with the appeasement policies and the mobilization policies, was instrumental in securing industrial peace and labour discipline. One direct benefit from this was the avoidance of the costs of work stoppage. The stoppage incidence due to labour disputes in Korea was very low until the partial democratization in 1987 [You, 1990]. Keeping the "animal spirits" of capitalists buoyant is an additional, and quite possibly more important, benefit of suppressing labour disputes.

To suggest that labour repression may have had the above benefits is not to be taken as an endorsement of such a policy. First, whatever its benefits, they must be weighed against the human suffering it has caused — the names of the workers who set themselves on fire to protest against the oppression pass through my mind. The suppression of labour rights also had a highly undesirable effect on skill formation and learning, as will be discussed below (see section III.3). Second, those benefits may not obtain under different social conditions. The authoritarian method of labour control worked in Korea only because the historical conditions allowed an authoritarian government to be politically effective [Amadeo and Banuri, 1991]. Also, the levelling of the initial asset distribution through land reform and the war destruction may have made such an authoritarian repression more bearable and acceptable. A third and related point is that labour repression is by no means necessary in order to have competitive wages. The literature on "social corporatism" shows that powerful centralized unions tend to moderate wage claims, because they are in a position to take the macroeconomic consequences of wage settlements into consideration [see Bruno and Sachs, 1985; Calmfors and Driffil, 1988]. Finally, the authoritarian conflict management by the State did not in any way remove the capital-labour conflict altogether. Rather, it served merely to keep conflict from breaking out into the open. Whenever the repressive apparatus of the authoritarian State weakened, therefore, an upsurge of open conflicts followed, as illustrated by the so-called "Spring of Seoul"

in the aftermath of Park's assassination and the dramatic explosion of strikes after the fall of the Chun regime in 1987. The authoritarian repression of labour in Korea actually has heightened the level of the underlying conflict by fomenting resentment among workers. The authoritarian management style that it engendered has been a source of deep frustration and discontent for workers. Striking workers thus often demanded "humane treatment". This rejection by the masses of workers should give pause to those who are in the business of preaching the virtues of the Korean "free" labour market.

2. *Wages and long term growth*

At any point in time, other things being equal, lower real wages will translate into greater export competitiveness of a country. However, it does not follow from this that the lower the real wages, the higher the growth rates. Wages are not merely a part of production costs. Since the propensity to consume out of wages is usually very high, wages play a critical role in maintaining adequate levels of aggregate demand. Lowering real wages may help increase exports but is likely to reduce domestic demand for home products as well as foreign products. From the implied negative relationship between real wages and balance of payments, we can define the competitive level of wages as that consistent with a sustainable balance of payments position. To lower wages below that level would lower growth, unless the economy is highly dependent on exports and exports respond elastically to cost reductions [Blecker, 1989; You, 1991, ch. 4]. Moreover, wages are incentives both for workers to put in efforts and for capitalists to invest in labour-saving technology. Excessively low wages may therefore slow down productivity growth by demotivating workers and retarding introduction of new technologies.

When we recognize the triple role of wages — a part of production costs, a source of demand and incentives for work effort and investment [see Bowles and Boyer, 1988, for a macroeconomic model based on this idea], it becomes clear that a blind emphasis on low labour costs is misplaced. Competitive wages are necessarily low when productivity is low. But, as productivity rises, competitiveness can be maintained with rising real wages. Rising real wages can further spur productivity growth and demand growth, setting a virtuous cycle in motion.¹⁸

¹⁸ This is exactly what happens in the high-growth equilibrium in the endogenous growth model developed in You [forthcoming, b]. The low-growth equilibrium of the model is characterized by the opposite, i.e. a vicious cycle of low wage growth, low

Table 3. Index of productivity and wages in manufacturing, 1963-88

Year	Q	W	V	W/Q	V/Q
1963	34.0	24.5	21.3	72.1	62.9
1968	38.8	33.7	29.5	87.0	76.1
1973	69.0	52.5	56.3	76.1	81.9
1977	80.7	82.2	84.6	102.0	105.1
1980	100.0	100.0	100.0	100.0	100.0
1984	127.4	121.5	133.4	95.4	104.8
1988	146.6	168.7	215.9	115.0	147.3

Compound annual rate of increase:

1963-88	6.0	8.0	9.7	1.9	3.5
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Notes: Q = Manufacturing GDP in 1980 constant prices/Manufacturing employment. W = Nominal manufacturing wage index/consumer price index. V = Nominal manufacturing wage index/manufacturing wholesale price index.

Sources: Bank of Korea; Economic Planning Board.

This mutual interaction between rising productivity and rising real wages is indeed a key to long term growth. To maintain competitive wage levels in this context amounts to sharing of productivity gains between capitalists and workers, not keeping real wages at low levels.

This is in fact roughly what happened in Korea. Labour repression in Korea did not result in a long term wage squeeze at all. We have noted above that labour repression contributed to keeping wages at internationally competitive levels. As long as real wage growth lagged behind labour productivity growth, there was no need for alarm. It was only when real wage growth forged ahead of productivity growth that the State responded with various wage restraint policies, including intensification of labour repression. Even so, real wages more than kept pace with productivity over the long term. The annual rate of growth of manufacturing value-added productivity amounted to 6 per cent during 1963-1988, and the annual rate of growth of manufacturing real wages amounted to 8 per cent during the same period. As a result, real wages in manufacturing increased almost 7-fold during this quarter century (see Table 3).¹⁹ Korea's success in rapid

demand growth and low productivity growth.

¹⁹ The product wage — the wage rate in terms of manufacturing output instead of the whole consumption basket — increased even more, showing a 10-fold increase during the same period (see Table 3). This is because the prices of other consumption goods such as

industrialization and, in particular, manufacturing exports was therefore not based on low wages (except in the earlier stages). Rather, it was achieved with an extraordinarily fast real wage growth. In particular, Korea's success in expanding her market share in the US was achieved despite the fact that the hourly compensation costs for production workers in manufacturing in Korea rose rapidly relative to the US — from 6 per cent of the US level in 1975 to 18 per cent in 1988 [US Bureau of Labor Statistics, 1990].²⁰

The rapid rise in real wages in Korea is a result of the rapid productivity growth and the rapid growth in demand for labour. Noting that this has occurred in conjunction with wage-determination by market forces, Fields [1984] takes this as a vindication of the view that a free labour market is growth promoting. To reach such a conclusion is an act of faith rather than logical reasoning, since the wage-determination mechanism is not a major determinant of either productivity growth or labour demand growth. To the extent that wage-setting institutions had an effect on productivity growth, it is through the unusually large wage differentials that arose due to decentralized wage-setting in the context of labour market segmentation, especially between the male-dominated capital-intensive industries and the female-dominated labour-intensive industries, rather than through the alleged equilibrium wages.

Recall that the Korean growth path is not characterized by a progressive specialization in labour-intensive industries based on cheap labour. Capital-intensive industries grew as fast as labour-intensive industries, as import-substitution was pursued with as much vigour as export promotion. What is interesting is that many import-substitution industries quickly moved on to export. In many cases, import substitution and the domestic market provided a springboard for exports in Korea. This process of industrial upgrading and structural change was crucial in sustaining rapid growth of productivity.

In such a growth process, what was the effect of the wage differential? In terms of static efficiency, clearly wage rates and marginal productivities should be equalized across industries for workers with the same skills. If we are concerned with growth, the answer is not so simple. One line of reasoning, which may be dubbed the Swedish view in deference to the fact that it was originally expounded by the Swedish labour union economists

food, housing, transportation, etc. rose much faster than the prices of manufactured goods.

²⁰ See Kaldor [1978] and Stout [1979] for much the same story about Japan and the former West Germany.

such as Rhen and Meidner, is as follows. To maximize growth, wages should be lower in the industries which have greater dynamic learning potentialities so that they can enjoy higher profit rates and grow faster.²¹ Since the capital-intensive industries in Korea represent the more dynamic industries in general, the wage inequalities in Korea were in the wrong direction according to this view, penalizing the dynamic industries.²² But quite the opposite may have been true for two reasons. First, the Swedish view rests on the assumption that workers play no active role in realizing the dynamic learning potentialities. If workers play an important role and they require wage incentives to do so, it would promote growth to pay higher wages in the more dynamic industries. In this view, the higher wages (and the higher degree of corporate paternalism) induced a higher degree of worker involvement and commitment in the capital-intensive industries, stimulating productivity growth and speeding up structural change [Amsden, 1989]. Second, another assumption behind the Swedish view that may not be valid in the Korean case is the direct relationship between sectoral profits and investment. The State, by such means as allocation of subsidized credit and foreign exchange, was able to direct investment flows into strategic industries. In this process, a part of the surplus generated in the low-wage labour-intensive industries was directed to financing investment in capital-intensive industries.

Another characteristic feature of wage formation in Korea is the flexibility of real wages, which is usually taken to be a consequence of the dominance of market forces in wage determination [see You, 1990]. But institutional influences behind the wage flexibility should not be neglected. One is that wages are more flexible due to a high proportion of bonuses and overtime payment in total compensation — 26.8 per cent in 1980 and 29.1 per cent in 1988 [Ministry of Labour, 1989]. When the total labour compensation is decomposed into bonuses, overtime pay and the base wage, the elasticities with respect to economic conditions are ranked in the same order [Ito and Kang, 1989]. Another institutional reason for real wage flexibility is the lack of wage indexation or, more generally, the weakness of real wage resistance to inflation. Whether real wage flexibility helps macroeconomic stability is controversial. I have shown elsewhere that

²¹ See Ramaswamy and You [1992] for a formal analysis of the relationship between wage bargaining institutions and structural change.

²² According to the Swedish view, this kind of “wage inequalities in the wrong direction” will naturally arise in a decentralized bargaining system and, therefore, establishing wage equality through “solidaristic” bargaining by a centralized union will promote structural change and growth.

it tends to stabilize (destabilize) the economy if the aggregate demand is negatively (positively) related to real wages [You, forthcoming, b]. In the case of Korea, due to the high dependence of her manufacturing sector on export demand, the flexibility of real wages seems to have smoothed short-run macroeconomic adjustments.

3. *Industrial learning and productivity growth*

Productivity growth comes from two sources, technical progress (either by learning by doing or by upgrading technologies) in existing industries and changes in the industrial structure toward higher productivity sectors. The full explanation of the high rates of productivity growth in Korea is a complex task well beyond the scope of this paper. Probably the most important elements are the high rates of investment and output growth which induce productivity growth via the Kaldor-Verdoorn mechanism. But as Hirschman [1958] pointed out, developing countries are often lacking in the "ability to invest", and this side of the equation should not be overlooked. The ability to implement rapid technical and structural changes lies at the heart of the Korean success in economic growth. In the labour market, these changes require new skill formation and learning at the individual firm level as well as adaptation of the skilled labour supply at the economy-wide level. Industrial learning, especially, is a key element. Productivity in developing countries is not necessarily low because more productive technologies are unavailable. More often than not, developing countries lack the "social capability" to realize the potential of the existing technologies.²³ Only through a complex and gradual process of learning can the "social capability" be augmented. Needless to say, labour institutions play an important role in supporting or hindering this process. Given the superb productivity performance in Korea, it is difficult not to say that Korean labour institutions have been generally supportive of skill formation and learning. We should not, however, conclude that the labour institutions in Korea are somehow ideal.

We have noted the positive aspects of the work norms and the work organization in enhancing worker involvement in production processes. This undoubtedly has contributed to learning and productivity growth. However, there are limitations in the labour institutions that have hindered skill formation and learning. First, the weakness of unions and job security

²³ See Abramovitz [1986] for a theoretical discussion of "social capability". Without this, the availability of the "blueprint" of technology means little, because technical knowledge is not fully codifiable [Hayek, 1949].

deters formation of firm-specific skills — skills which are embedded in the organization of the firm and thus are of less value to other firms. Workers possessing firm-specific skills face the danger of opportunistic behaviour on the part of the employer, since they cannot get fair reward to their skills outside of the firm. Therefore, firm-specific skill formation is deterred unless there are safeguards against opportunistic behaviour by the employers [Williamson, 1985]. Classic examples of such safeguards are labour unions, which offers the “voice” mechanism when the “exit” option is limited [Hirschman, 1970], and the vertical commitment by which employers practically guarantee life-time employment to workers [Leibenstein, 1987]. These two mechanisms have been evidently lacking in Korea. Second, Korean firms have not been keen on on-the-job training. They often resort to “poaching” from other firms to meet their needs for skilled workers [K-W. Lee, 1983; Park and Kim, 1991]. This of course has a detrimental effect on aggregate skill formation. This can be seen as an example of the “collective action” problem among the firms competing in the labour market [see Marx, 1976, ch. 10 and 15, for a classic analysis of the English Factory Acts in this light].

Faced with these “market failures”, the Korean government tried various solutions. For example, in 1977, firms employing over 300 employees were required to provide in-plant training, although in exceptional cases they could pay a levy instead. But this law had many defects. Since there were no compulsory skill tests, the quality of training could not be monitored and most programmes provided workers with only elementary training. Moreover, since the levy was not high enough, firms increasingly chose to be fined rather than train. Thus, while about 70 per cent of the required firms chose to train in 1977, only 25 per cent of them did in 1988 [Park and Kim, 1991]. For another example, the government runs a skill certification system to encourage skill formation and to reduce information problems in the market for skilled labour. It also runs public vocational training schemes, which train more workers than private schemes [Park, 1988]. But there are doubts as to the quality of training provided by these institutions.

What the labour institutions in Korea lacked in terms of providing incentives for training was probably more than made up for by the high level of education workers received. Education provides workers with basic skills such as literacy and numeracy and enhances their capacity to learn. Recent models of endogenous growth theory have shown that an increase in the stock of human capital can lead to a rise in the rate of growth of income [e.g. Lucas, 1988; Romer, 1990], and the recent policy stance of the World Bank also emphasizes human capital investment [World Bank,

1991]. But there are some severe problems. While the average education level increased enormously, there are doubts about the quality of education. Some frequently cited problems include large classes, cramming rather than understanding, and didactic lecturing rather than critical discussion. Even so, Korean students excel in maths and science in international tests at high school level. From college level upwards, I suspect, they do not fare as well since these problems become more and more serious obstacles to academic performance. There is also widespread scepticism about the content of education. Employers and workers alike often find that formal education has not been a very useful preparation for practical work. If the Korean education system was not particularly good at technical preparation for industries, it certainly excelled in equipping workers with discipline and basic skills.

IV. Changes in labour institutions since democratization²⁴

1. The rise of new unionism and its economic effects

The process of democratization began with the government concession to the opposition demand for a direct presidential election on June 29, 1987. A massive wave of strikes broke out immediately. More than three thousand disputes erupted during July and August alone, involving more than a million workers all over the country. A dramatic rise in strike activity and a rapid organizational expansion of labour unions were sustained for the following two years. The stoppage incidence (as measured by the number of workdays lost due to labour disputes per year per 1,000 non-agricultural employees) increased from 4.5 during 1984-1986 to 473.4 during 1987-1989. The number of enterprise unions nearly doubled from 2,725 in June, 1987 to 5,062 in June, 1988, and union membership increased from about a million to about one and a half million during the same period, and reached almost two million in 1989.

The new unionism involves more than the organizational expansion of labour unions. It represents a significant change in the nature as well as the strength of the labour unions. Not only most of the new unions but also many of the previously existing unions have become more accountable to

²⁴ This section is largely a summary of the discussion on this topic contained in You [forthcoming, a].

the rank-and-file through a movement of union democratization. As a result, the turnover of the union leadership has been very high since 1987. While this has hindered the development of union professionalism, it was somewhat inevitable in the process of breaking out of the authoritarian system of controls. Moreover, various solidarity organizations outside of the legal framework sprang up to strengthen the new independent unions, culminating in the founding of a new independent national union centre, *Chun-no-hyup*, with an initial membership of about 600 unions and 200,000 members in January 1990.²⁵

The recent expansion of union organization also brought about important changes in the composition of the union membership. First, the Metal Workers' Union, which draws its membership from such industries as steel, transportation equipment and machinery, grew explosively, whereas the Textile Workers' Union, which was the leading industrial union in the 1970s, stagnated. This is partly a result of changes in the industrial structure. It also reflects the fact that steadily rising real wages were not enough to keep even the relatively privileged male workers in heavy manufacturing from revolting against the authoritarian controls. Even the leading *chaebol* (large conglomerate) firms, which had been largely immune from labour disputes, came to be involved in some of the most bitter strikes. The second notable fact is the spread of trade unionism among white collar workers at hospitals, the news media, financial institutions and educational institutions, which helped put unionism in the mainstream of the society.

In dealing with the sudden rise of militant unionism, the State has sought, on the one hand, to establish the image of an impartial mediator between capital and labour, and, on the other, to keep labour from becoming an organized political opposition or disrupting capital accumulation. These contradictory objectives have led to alternating periods of non-intervention and forceful intervention. In 1988 the main policy emphasis was on promoting "autonomous industrial relations", urging employers to develop their capacity to handle labour demands without resorting to state oppression. But in 1989 the government returned to more active strike-breaking and a forceful crackdown on the independent labour movement.

However, the State has also taken various steps to accommodate labour demands, if only to isolate the more militant unions. Among such

²⁵ Legally, only one national union centre, the Federation of Korean Trade Unions, is recognized. Since this organization has been largely under the control of the State, many of the new unions and the newly independent unions sought to establish networks of their own. The FKTU itself has since become more independent under a new leadership.

steps are the amendment of labour laws to make it more feasible for workers to strike legally — due to highly restrictive clauses virtually all strikes had been technically illegal — and new welfare measures such as the introduction of the minimum wage regulation, expansion of national health insurance and initiation of a national pension system. These institutional reforms, despite their limitations, represent a significant departure from the past.

What are the economic consequences of these institutional changes? It may be too early to tell the long-term trends, especially because the industrial relations are still in a state of flux. Nonetheless, some important economic effects can be detected. The most visible impact is on wage formation. Labour unions clearly exert a much stronger influence over wage determination now. One result of this is big increases in real wages: real wages in manufacturing rose 8.3 per cent in 1987, 11.7 per cent in 1988, 18.3 per cent in 1989 and 10.7 per cent in 1990, a huge increase over the average annual real wage growth rate of 5.7 per cent during 1981-1986. Whether this development will lead to a reduction in real wage flexibility is unclear. The acceleration of real wage growth in 1989 in spite of the business downturn and the increase in the rate of inflation may be a sign of a change in the cyclical behaviour of real wages. The impact of stronger labour unions on wage dispersion is also unclear. Although the wage differential between production workers and office workers has been reduced, the wage differential in other dimensions may be increasing. As labour unions' bargaining power rose while the bargaining system remained fragmented, the wage settlements began to reflect the employers' ability to pay to a greater extent, thus favouring workers in larger firms.

The large increases in real wages have dramatically changed the growth pattern from export-led growth to domestic demand-led growth. As shown in Table 4, until 1986 the growth rate of export demand far outraced the growth rate of domestic demand. The changes since 1987 are quite clear. All components of domestic demand — private consumption, fixed capital formation and government expenditure — grew faster than export demand during 1987-1990. Especially notable is the unusual strength of private consumption demand, which is of course a result of the rapid real wage increases. This wage-driven increase in consumption growth has not crowded out investment. On the contrary, investment demand was very strong, registering annual real growth of 17.5 per cent during this period. In part, this is due to the construction boom driven by government housing projects. But in large measure the wage growth contributed to this investment boom: by generating strong consumption growth it helped maintain high rates of capacity utilization despite faltering

Table 4. Decomposition of real GDP growth rates (% p.a.)

Period	GDP	C	I	G	X	M
1970-78	10.1	7.7	15.0	8.0	24.7	17.9
1979-86	7.2	5.1	5.5	4.8	10.3	6.1
1987-90	9.7	9.9	17.5	8.7	8.5	15.6
1987	12.0	8.3	17.7	6.9	21.6	19.4
1988	11.5	9.8	15.2	9.4	12.5	12.8
1989	6.2	10.9	20.9	9.7	-3.8	16.3
1990	9.0	10.4	16.4	9.0	5.4	13.8

Variables: C - Capital. I - investment G - government expenditure. X - exports. M - imports.

Note: Growth rates for 1970-86 are calculated from data in 1980 constant prices; for 1987-90, from data in 1985 constant prices (1990 data are preliminary).

Source: Bank of Korea.

exports, while by raising labour costs it compelled firms to invest in factory automation and other technological upgrading as well as R and D.

It would be reading too much from the macroeconomic experience of the last few years to say that a new growth regime has emerged in Korea. For one thing, the growing trade deficits clearly represent constraints on this type of growth. For another, the government is actively pursuing a policy of wage restraint in order to curb inflation and regain international competitiveness. But it is still true that the recent macroeconomic experience renders it highly plausible for Korea to follow a wage-led growth.

2. *The endogenous causes of the institutional change*

What are the causes of the rise of the new unionism and the related institutional changes? The proximate cause, of course, is the political changes associated with the beginning of the democratization process. On the surface, the rise in labour militancy since 1987 seems a repeat of the historical pattern of increasing labour militancy during periods of political crisis, as happened during 1960-1961, 1969-1971 and 1978-1981 [Deyo, 1989]. The fundamental difference is that the process of political democratization has taken root whereas the past crises of the authoritarian State were short-lived. This time, as a result, the rise in labour militancy was not only much greater in magnitude but also effective in bringing about long-lasting changes in labour institutions. The standard practice in economic analysis is to stop here and pass the baton to political scientists.

But this will not do, because, at least in this instance, the political changes are not simply an exogenous shock to the economic system but an endogenous outcome of the economic processes.

Underlying the breakdown of the authoritarian regime is the crisis of the implicit social compact between the military-dominated State and the citizenry, in which citizens were expected to tolerate the suppression of their political rights in return for the regime's delivering prosperity [Bello, 1990]. This social compact is termed implicit because it was never forged through popular political processes but was imposed by the authoritarian State. One aspect of this implicit social compact was precisely that workers were expected to submit to the authority of the State and the employers in exchange for rising real wages and employment. The viability of this social compact depended on, among other factors, the image of the State as the promoter of economic development aloof from particularistic interests, either of business or of labour. This image was increasingly marred by corruption scandals and a conspicuous rise of the power of the *chaebol* in the 1980s under Chun's reign.²⁶ The seemingly limitless concentration of economic power in the hands of the *chaebol*, together with the intrusive expansion of privileges for the military, increasingly alienated the urban middle class. On the other hand, labour unions were subjected to extremely harsh repression under Chun's political and economic stabilization programme. Not accidentally, labour's share of income fell from the late-1970s level (see the last two columns of Table 3), while the average work week increased from around 52 hours in the 1970s to around 54 hours in the first half of the 1980s. Farmers also suffered a sharp income decline, mainly due to the import liberalization policies pursued under Chun. Gradually, the decades-old implicit social compact disintegrated and the regime had to surrender to the mounting pressure for political reforms.

Ultimately, the very success of the economic development programme directed by the authoritarian State became its own undoing. While the economic success helped legitimize the authoritarian regime, in the long run it undermined the social basis of the regime by generating more autonomous and stronger social classes. In particular, labour repression and the authoritarian conflict management by the State could not continue for long as the working class became more and more powerful thanks to the rapid industrialization. Even before 1987, the labour movement had

²⁶ The share of the top five *chaebol* in manufacturing shipments increased from 15.7 per cent in 1977 to 22.3 per cent in 1983, and that of the top thirty from 34.1 per cent to 39.9 per cent. Moreover, the top *chaebol* groups took over the commercial banks in 1984 after they were privatized as a part of the financial liberalization policy.

been gathering strength despite severe repression.

The most obvious way in which the power of the working class increased is in terms of the market power of the individual workers. The rapid industrialization not only brought about a tremendous increase in the size of the industrial work force but also resulted in a rapid absorption of surplus labour and, consequently, a sharp decline in unemployment and underemployment rates over the years (see Table 1). The labour market has been especially tight since 1987, which was undoubtedly a factor in boosting militancy among workers.

Equally important is the strengthening of the structural capacity of the working class. One aspect of this is the shift in the composition of employment toward heavy capital-intensive industries. Workers in these industries have a stronger commitment to their job as well as greater resources and, therefore, a higher degree of solidarity and militancy than the predominantly female workers in the labour-intensive sector, who have little anticipation of long-term employment with their current employers.²⁷ Another aspect of the increase in the structural capacity of the working class is the development of the working class communities in large concentrated industrial areas, a process furthered by the increase in second generation workers in recent years [Deyo, 1989]. In earlier days of industrialization most of the young workers had migrated from rural areas, and the continuous influx of these workers hindered development of working class communities and their capacity to organize. But the second generation workers with an urban background are less influenced by traditional patriarchal values and are better able to mobilize community resources in the urban context.

Finally, on the cultural or "class consciousness" level, workers have become increasingly assertive and confident. Apart from the development of working class communities, two other factors have contributed to this development. First, the educational level of the workers rose considerably over the years. In recent years, the majority of entrants in manufacturing are high school graduates. While schooling in Korea, where schools often enforce military-style discipline, helped create a productive and disciplined work force, the increasing spread of high school education also raised the expectations and the assertiveness of the workers. Another factor which contributed to increasing the confidence and the independence of the

²⁷ Many of the independent unions in the light manufacturing industries which were active in the 1970s depended heavily on the resources of church-linked liberal labour rights organizations, while the recent independent union movement led by male workers in heavy manufacturing industries is much less dependent on outside resources.

workers is skill accumulation, especially in the technologically dynamic capital-intensive sector. As the frontline warriors of the enormous industrial transformation these workers felt that greater social recognition for their contribution to economic growth was due.

V. Conclusion

In an attempt to assess the role of labour institutions in Korea, this paper has focused on three areas that are deemed to be the most important. In the area of labour rights and conflict management, the leading role of the State in managing capital-labour conflict stands out as a defining feature. To minimize conflict, the Korean State combined labour repression with appeasement and mobilization policies. Labour repression helped to keep wages at competitive levels and inflation rates from getting out of control. It also succeeded in keeping disruptive collective action by workers to minimal levels, with a reassuring effect on investors. However, it heightened latent conflict so that whenever the authoritarian political system was weakened, a major increase in labour disputes erupted. In the long run the system of labour repression or, more generally, the authoritarian management of capital-labour conflict by the State could not be maintained because of the inherent contradiction. This system was predicated upon the historical situation where the social classes, the working class in particular, were very weak. However, successful economic development brought strengthening of working class power, and sooner or later the system of labour repression was bound to collapse.

The rise of the new unionism following the political changes that began in 1987 brought about significant changes in labour institutions. It has led to a rapid expansion of union organization and autonomous collective bargaining by the more independent and militant unions. While the State continues to hold a hostile view of the labour movement, it has nonetheless accommodated to the new situation by improving trade union rights and introducing welfare measures such as the minimum wage law, national health insurance, a national pension scheme, etc. The employers, lacking the requisite experience, have been slow in adapting to the new situation, and, partly as a result, the level of conflict remains fairly high. The overall situation in labour relations is yet to settle down, as the State, labour and the employers grapple with reaching a new accommodation.

In the area of wage formation the decentralized wage-setting under labour repression gave rise to large wage differentials and cyclical flexibility of wages, which may have helped structural change and stability,

respectively. The main thing, however, is that wages were kept within the bounds of competitiveness. In Korea, this did not mean keeping wages low; it meant in fact an extremely rapid rise in real wages due to the rapid rise in productivity, albeit from a low base. In the first half of 1980s real wage growth was lagging behind both the historical norm during the industrialization process and the growth in productivity. This trend was reversed after 1987 as real wages grew by leaps and bounds, reflecting the rise of new unionism as well as the tight labour market. As a result, for the first time since the start of the export-oriented growth, private consumption and other domestic spending replaced exports as the leading source of demand growth.

It was noted above that labour repression is by no means necessary in order to obtain competitive wages. There are of course historical reasons why labour repression and authoritarian conflict management arose in Korea. Now that the conditions have changed, alternative ways of achieving industrial peace and competitive wage levels must be found. The extremely high rates of wage increase and, consequently, rising inflation and declining competitiveness in recent years indicate a pressing need to find an institutional solution to the heightened conflict. If the current level of conflict and disagreement among the State, labour, and the employers continue, it is not unlikely that Korea will end up as an "intermediate" case located between the centralized and decentralized wage bargaining system, which Calmfors and Driffil [1988] show to be the worst case.

Finally, in the area of industrial learning and skill formation, again the judgment is mixed. It would be foolish to downplay Korea's achievement in building modern industries, almost from scratch, in such a short time. The most important reason behind this success is probably the high rates of investment, which made possible the introduction of new equipment, machines and technologies. However, workers need to learn in order to make these things work. And learn they did. Not only was the educational level of workers high, but their discipline and work norms were exceptional. Industrial learning progressed as these workers accumulated experience within the context of the work organization focused on the shopfloor. However, the labour and other institutions in Korea have not been successful in delivering support to industrial learning in terms of systematic skill training.

The conflictual labour relations and inadequate worker rights often meant the lack of long term commitment to the firm on the part of the workers. This in turn led the employers to neglect in-house training. Technical training in technical high schools and vocational training institutions also suffers from inappropriate content and inadequate quality.

In the move towards an ever higher-wage economy based on ever more sophisticated technology, the institutional deficiencies in technical training will be felt more acutely. In particular, as the technological regime changes from Fordist mass production to post-Fordist flexible specialization, the importance of highly skilled workers and good training schemes will increase.

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6 *Labour institutions in an export-oriented country: A case study of Thailand*

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This study investigates the relationship between Thailand's development strategy and labour institutions in the last two decades. In so doing the development experience of the four East Asian newly industrializing countries and territories (henceforth NICs), Taiwan (China), Hong Kong, Singapore and the Republic of Korea, which have been taken as the model for Thailand, will be used as a basis for comparison. Our hypothesis is that the state policy of achieving NIC status through export promotion based on cheap labour not only creates certain features of the labour market, but also demands certain forms of state intervention in labour processes. The paper will examine: (i) the process of export-oriented industrialization and its structural consequences for the labour market; (ii) the role of the State in formulating the labour institutions; and (iii) the impact on workers of this development strategy and pattern of economic growth. The study begins with a review of development strategy and labour control in the four East Asian NICs. In section II Thailand's export promotion strategy is explored with particular reference to its political context. The changing economic structure in the last 20 years is then investigated in order to show how labour market structure influences the strength of organized labour. The following sections discuss forms of state and employers' control of labour and responses of unionized labour. In the last part the authors seek to explain the effects of export-oriented industrialization (EOI) on the trade union movement.

1. Development experience of the East Asian NICs

In the early 1970s, Thai elites were impressed by the successes of the Republic of Korea, Taiwan (China), Hong Kong, and Singapore in indus-

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trializing through export promotion. Therefore, the economic development strategies and industrial relations policy of those NICs became an ideal model for Thailand in the 1970s and 1980s.

According to Deyo [1988], disciplined and low-cost labour has been a prerequisite for the successful export-oriented industrialization (EOI) of the East Asian NICs. To guarantee constant economic growth, governments in these countries created a peaceful labour situation so that the workers could not threaten the new economic development strategy. In the Republic of Korea, after imposing martial law in 1961, General Park sought first to establish political control and soon after to initiate EOI. His measures included a total ban on strikes, deregistration of all existing unions, and the arrest of many union activists. After destroying opposition unionism, he set up an umbrella labour organization, the Federation of Korean Trade Unions (FKTU), with which all reactivated unions had to affiliate.

Similarly, labour control through government intervention also took place in Singapore. Following the elections of 1963, in which the People's Action Party gained absolute victory, opposition union leaders were jailed, unions deregistered, and legislation passed which proscribed political activity by labour. EOI was initiated later, in 1968. In both Korea and Singapore, political consolidation before the introduction of EOI destroyed opposition parties and leftist unions; the subsequent adoption of EOI saw heightened direct state intervention in labour relations. Singapore's labour controls were state-centred and extensive. The Singapore government used the National Trade Union Congress (NTUC) as an instrument of development policy. In the late 1970s, the NTUC became a vehicle for productivity campaigns, training programmes, and other efforts to enhance labour's contribution to development.

In contrast to Singapore and the Republic of Korea, Taiwan (China) and Hong Kong have given greater emphasis to management-centred labour controls and management-dominated unions. In 1978, the Taiwanese authorities called for tripartite national consultations on the expansion of union and enterprise assistance to employees in such areas as housing, dormitories, dining facilities, uniforms, education, entertainment, and consumer coops. The early 1980s saw the promotion of a "Factory as Home and School" movement, stressing labour-management agreement and the "positive participation" of workers in solving industrial problems. It seems that employer paternalism supported by the government still plays an active role in modern Taiwanese society. That the industrial relations system in Taiwan and Hong Kong involves less direct state intervention may be due partly to their belief in the idea of *laissez-faire*. Moreover, the weakness

of the Hong Kong trade union movement may be related to the apolitical nature of the workers and their fear of communism. In addition the Hong Kong workers have tended to fight more against employers than the government.

The successful export-oriented industrialization of the East Asian NICs could be seen to reduce unemployment while contributing to an increase in real wages and material standards of living. By 1980, unemployment rates had fallen substantially from their levels at the outset of EOI, a decline attributable in part to expanding employment in the new export industries. During the 1960s and 1970s, income inequality fell in Taiwan, fell and then rose in Korea, and fell and then levelled off in Hong Kong and Singapore.

It is noteworthy that although the real wage of workers in these countries increased, it rose less rapidly than productivity. This reflects the weak bargaining power of Asian labour. In addition, increased relative income equality in East Asia seems to have been a consequence not so much of a better sharing in the fruits of economic growth as of very high levels of labour extraction among low-income workers and families. For instance, the average number of hours worked per week by Korean manufacturing employees was among the highest in the world [ILO, 1984; see also the chapters by Park and You in this volume].

II. Export-oriented industrialization and its political context

Industrialization in Thailand began quite late. After the Second World War Thailand was still an agrarian economy, relying on exports of agricultural and mining products. The manufacturing sector was very small and government-led. The early phase of industrialization began in the late 1950s, on the advice of the World Bank, when a series of programmes for economic development were initiated with priority given to the promotion of private foreign investment. In 1961, the First Six-Year National Economic Development Plan was launched, based on the strategy of import substitution (IS). The State changed its role from being a direct entrepreneur to providing support for the building up of economic infrastructure and creating favourable conditions for capitalist development in the country.

The IS strategy of industrialization emphasized the financing of imports of goods necessary for industrialization with foreign exchange earned through the export of agricultural surplus, especially rice, or

mineral extraction. Favourable measures were also offered to attract foreign firms, such as exemption from import duties on raw materials and machinery, tax exemption on and free repatriation of profits. At the same time, high import tariffs and quotas were set up against manufactured goods, thus compelling foreign investors to establish factories in the country.

The IS strategy left at least two durable traces. First, a certain industrial network was created, namely the close collaboration between local entrepreneurs and foreign investors, which later served as the base for export growth in the 1980s. Secondly, rural-urban migration was set in motion. The urban sector, which grew mainly in Bangkok and the surrounding provinces, drew more and more labour from the countryside. During the period 1955-1960 the total number of in-migrants to Bangkok from all regions was 128,811, whereas between 1965 and 1970 the figure jumped to 312,850. Most of these migrants were under 30 years old and a large percentage were under 20 [Chareonloert, 1989].

An export promotion policy underlay Thailand's development strategy from the early 1970s. According to Phongpaichit [1991], reorientation toward export promotion was suggested by the World Bank and promoted by some sections of local capital, who had some success in exporting manufactures. In the Fourth Five-Year Plan (1977-1981), a number of programmes for export promotion were elaborated. The successful results of the new policy can be noted in the second half of the 1980s. During the Sixth National Plan (1987-1991), the share of the manufacturing sector increased, although agriculture remained the largest economic sector. This growth was due to an expansion of exports and investment. Official statistics showed that compared to the Fifth National Plan the number of approved investment projects during the Sixth Plan increased three times, and investment capital rose seven times. The expanding industries were mostly export manufacturing and import-substitution products, including transport equipment, leather goods, electric and electronic appliances and garments.

Foreign direct investment (FDI) also increased, from 4.4 billion baht in 1985 to 7.0, 9.0, 28.2 and 43.7 billion baht in 1986, 1987, 1988 and 1989 respectively.² Foreign trade also increased. As shown in Table 1, agricultural exports, which had been important in Thailand's economic growth in the 1960s, declined in the mid-1970s, when there were attempts to compensate by a shift toward exports of manufactured goods.

² 25 baht are approximately equivalent to 1 US dollar.

Table 1. Distribution and growth of exports by economic sector (percentage distribution)

Economic sector	Percentage distribution					Average growth rate (%)				
	1971	1976	1981	1984	1988	1971-76	1976-81	1981-84	1985-88	
Agricultural products	62.6	51.8	49.0	45.5	26.5	23.8	18.3	2.4	13.2	
Fishery products	2.9	4.4	4.5	5.0	5.2	40.4	19.6	9.4	25.3	
Forestry products	1.5	1.7	0.1	0.1	0.2	31.8	-32.9	-10.1	30.7	
Mineral products	13.7	6.7	7.9	4.4	1.9	11.7	23.5	-13.7	-9.0	
Manufacturing products	10.0	26.0	36.7	44.2	65.6	55.6	28.2	11.6	40.2	
Others	9.3	9.4	1.8	0.8	0.7	28.5	-14.2	-20.7	23.8	
Total exports ¹	100.0	100.0	100.0	100.0	100.0	28.6	19.6	4.9	28.1	

Note: ¹ Excluding re-exports.

Source: Aichana Wattananukit and Teerana Bongnakapat, *The impact of the external sector on the Thai economy and its determinants*. Bangkok, the 1989 TDRI year-end conference.

In the late 1980s, the manufacturing sector grew rapidly. Manufacturing exports diversified from industries based on primary product processing and a few labour-intensive goods, to various kinds of agro-based labour intensive industries, and industries requiring higher levels of skilled labour and capital. Export values increased from 230 billion baht in 1986 to 520 billion baht in 1989. The share of industrial products in all exports overtook that of agriculture, reaching 64 per cent and 28 per cent respectively (see Table 2).

It should be noted that Thailand's economic growth rate was distinctly higher than that of the leading industrial countries and the other ASEAN countries. In 1988 and 1991 the world economic growth rates were 4.1 and 1.4 per cent respectively while Thailand enjoyed growth rates of 13.2 and 8.5 per cent in the same years (see Table 3).

The shift of economic strategy from import substitution towards export orientation in Thailand occurred simultaneously with political changes from military domination towards greater democracy with increased business influence [Phongpaichit, 1991]. Such a development shared some similar features with the experience of the Asian NICs. One similarity is that the policy to promote private investment in Thailand between 1957 and 1975 occurred within the context of an authoritarian political system. At that time Thai politics were described as "bureaucratic polity", in which political activities were led by the bureaucracy. Non-bureaucratic forces were unable to get access to political decision making except during 1971-1972 when a parliamentary system functioned very briefly.

The political and economic bargaining power of non-bureaucratic interest groups, however, grew very drastically after the people's uprising in October 1973. Since 1977, there has been a process of strengthening the institutionalization of democracy, which continues today. Although the bureaucrats and the military still hold a dominant role in politics, both are pressed to negotiate with other powerful interest groups such as businessmen, organized workers and students. Yet these non-bureaucratic forces are not strong enough to dominate the political arena. For instance, between 1988 and 1991 the Chartchai cabinet was formed with elected Members of Parliament, who could bargain effectively with the bureaucracy for more liberal economic reform, yet had to yield to pressure from the military. The major political actors now comprise both the military bureaucratic alliance and the non-bureaucratic forces. In the political system, which is characterized by general elections, political competition occurs between pressure groups of businessmen and military men and bureaucrats, and there is a considerable possibility of political intervention by the army. This is termed a "semi-democratic regime" [Samudavanija, 1985]

Table 2. Exports of Thailand, 1979, 1989 (value: million baht)

Sector	1979	%	1989	%
Agriculture	56,161.1	51.9	146,341.5	28.3
Manufacturing	32,646.3	30.2	332,849.1	64.5
Mining	11,530.2	10.7	6,932.0	1.3
Others	7,841.4	7.3	30,192.4	5.9

Source: Kittit Limskul: "International trade and the impacts on Thai workers", in Kanchada Poonpanich and Sangsit Piriyaarangsarn (eds.): *The political economy for trade unionists*. Bangkok, Friedrich Ebert Foundations, 1991, Vol 93 (in Thai).

Table 3. Economic growth rate of Thailand and other countries

	1988	1989	1990	1991
World economic growth rate	4.1	3.0	2.0	1.4
7 Leading industrial countries	4.6	3.3	2.6	1.2
9 Asia-Pacific countries	8.9	7.3	7.1	5.9
4 Asean countries	7.9	8.3	7.7	6.1
Thailand	13.2	12.0	10.0	8.5

Notes: 7 Leading industrial countries: USA, Canada, Japan, U.K., France, Germany and Italy.

9 Asia-Pacific countries: Republic of Korea, Taiwan (China), Hongkong, Singapore, Brunei, Indonesia, Malaysia, Philippines, and Thailand.

or "competitive corporatism" [Laothamatas, 1989]. Since the Thai democratization process is quite different from that of the Asian NICs, the shift of development strategy in the Thai case also appears to have been substantially different from the situations in these countries. According to Phongpaichit [1991], the economic strategy for export promotion in Taiwan and South Korea was pursued by technocrats with support from the authoritarian State. In Thailand the economic strategy was created in parallel with an attempt by businessmen to delegitimize the role of the army, by setting up political parties, and accepting the electoral and parliamentary system as a means to guarantee that the economic decision-making process benefitted the capitalist group.

III. Economic changes and employment

Both the IS and EOI development strategies led to structural changes in the Thai economy in terms of production and employment.

In terms of production, the role of agriculture has declined while non-agricultural sectors have expanded rapidly. Table 4 shows that the share of agriculture in GDP fell from 38 per cent in 1960 to 14 per cent in 1990. On the other hand, the contribution of manufacturing and services rose from 11.6 and 8.7 per cent in 1960 to 24.7 and 12 per cent respectively in 1990. Especially if the service industry is defined according to the ILO's and the OECD's definition as "the tertiary sector or all activities except agriculture, mining and manufacturing", the growth of this sector constitutes an important structural change. Between 1960 and 1990 the service sector's share of GDP grew from 48.7 to 57.9 per cent. While the structural change in terms of production was quite rapid, the change in employment was much slower. In 1988 more than two-thirds of the employed were still engaged in agriculture. As shown in Table 4, the manufacturing sector's ability to absorb labour increased from 3 per cent in 1960 to 10 per cent in 1990. The share of the tertiary sector in employment expanded from 12 per cent in 1960 to 25.6 per cent in 1990, with the major increase coming from trade, services and transport. Thai economic structure in the late 1980s was therefore characterized by the higher contribution of the non-agricultural sectors to GDP, but these sectors accounted for a smaller share of employment than agriculture.

In terms of the labour market, the change was not drastic. Table 5 shows that over three decades the number of wage and salary earners achieved only a twofold increase. Government continues to be a major source of employment in the modern sector. It is also remarkable that despite the rise of modern industries, employment in the late 1980s was dominated by unpaid family labour. Own account workers and unpaid family labour still account 70 per cent of total employment. The proportion of unemployed people (those looking for work) in the total labour force also increased steadily from 1 per cent in 1970 to 5.9 per cent in 1989.

Industrialization in Thailand in the last three decades brought about a growth in informal sector employment. The informal sector here refers to micro-establishments with less than 10 workers and home-based enterprises with or without employees. As shown in Table 5, in 1991 about 70 per cent of the employed labour force of 28.3 million were own account workers and unpaid family workers who usually can be found in informal arrangements. Table 6 shows similar trends. Almost all workers in agriculture were in informal sector employment. In manufacturing, which

Table 4. GDP and employment by industrial sector, 1960-1990 (percentage distribution)

	1960 ¹ % of GDP	1960 % of employment	1970 % of GDP	1970 % of employment	1980 % of GDP	1980 % of employment	1990 ² % of GDP	1990 ³ % of employment
Agriculture	38.2	82.4	27.0	79.3	20.6	72.2	14.4	64.0
Mining	1.4	0.2	2.8	0.5	2.6	0.4	2.9	1.7
Manufacturing	11.6	3.4	15.9	4.1	21.7	5.6	24.7	10.2
Construction	3.7	0.5	5.3	1.1	4.5	1.5	5.2	3.3
Electricity & water supply	0.4	0.1	1.0	0.1	2.0	0.3	3.0	0.4
Transport	6.6	1.2	6.5	1.6	6.7	1.8	7.1	2.4
Commerce	17.9	5.7	17.4	5.1	16.9	6.9	17.6	9.6
Banking insurance, real estate	2.2	—	2.4	0.1	2.8	0.5	5.3	—
Ownership of dwellings	4.5	—	5.6	—	4.8	—	3.6	—
Public administration	4.7	—	4.4	—	5.1	—	3.8	—
Other services ⁴	8.7	4.7	11.5	7.1	12.3	8.1	12.3	9.9
Activities not adequately described	—	1.7	—	0.8	—	2.8	—	0.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Notes: ¹ GDP at 1962 prices. ² Estimated by National Economic and Social Development Board. ³ Preliminary data. ⁴ Employment figures include banking, public administration, etc.

Sources: National Statistical Office, *Population Census*, various years. National Economic and Social Development Board, *National Income of Thailand*, various years.

Table 5. Employed persons by work status, 1960-1989 (percentage distribution)

Work Status	1960	1970	1980	1989	1991 ¹
Employer	0.3	0.4	1.2	1.5	1.2
Employee	11.9	15.6	21.8	27.1	28.5
Government	3.6	4.7	5.3	6.0	6.0
Private	8.3	10.9	16.5	21.1	22.5
Own account worker	29.6	29.6	30.1	28.7	29.8
Unpaid family worker	58.0	53.7	46.8	42.7	40.6
Total	100.0	100.0	100.0	100.0	100.0
(Total in '000)	(13,772)	(16,652)	(22,523.8)	(30,615.6)	(28,323.0)

Note: ¹ Preliminary data.

Source: National Statistical Office, Population Census and Labour Force Survey, various years.

Table 6. Employment classified by industry and by formal and informal labour markets, 1988 (in thousands)

Industry	Formal	%	Informal	%	Total
Agriculture	432.3	2.2	19,152.2	97.8	19,584.5
Mining	23.9	55.3	19.3	44.7	43.2
Manufacturing	761.7	31.0	1,698.9	69.0	2,460.6
Construction	118.2	16.8	584.0	83.2	702.2
Utilities	116.2	97.1	3.5	2.9	119.7
Commerce	604.9	20.9	2,292.0	79.1	2,896.9
Transport & Communications	221.4	34.6	419.2	65.4	640.6
Services	1,864.9	61.8	1,152.1	38.2	3,016.4
Total	4,142.9	14.1	23,321.2	85.9	29,464.1

Source: National Economic and Social Development Board, Human Resource Planning Division and Thailand Development Research Institute, *Directions and Employment Potentials in the Seventh Plan*, February, 1990, p.6.

contributed most to the GDP in 1988, nearly 70 per cent of the workforce was in the informal sector. Most of the labour in construction, commerce and transport also worked in informal arrangements. The government statistics on labour pointed out that the informal sector workers are concentrated in small scale-enterprises with less than 20 employees, which made up about 89 per cent of all establishments in 1990 [DLPW, 1991, Table 13.3].

A special characteristic of industrialization in Thailand has been a slow proletarianization of wage labour. This was partly related to the large supply of labour in agriculture. Agriculture remains extensive and a source of poorly educated workers who can easily migrate for urban work during the slack season. Since they are relatively uneducated, they are not employed in the formal sector but could find jobs in informal work arrangements or small-scale production and service sectors. Such migration is mostly not permanent but, rather, seasonal. Migrants still keep personal and production ties with relatives in the rural areas and have a semi-peasant, semi-worker status.

It is also noteworthy that in the Thai pattern of industrialization the small-scale enterprises (1-99 employees) outnumber larger ones. This prevents a large concentration of wage earners, which is seen as a prerequisite for proletarianization and unionization. Table 7 shows that in 1989 there were 158,263 establishments, or 97.5 per cent of the total of all non-agricultural enterprises, which hired less than 100 workers. Employees in these enterprises accounted for about 45 per cent of the total of 3 million employees. In the tertiary sector, almost all establishments were small scale and hired about a half of all people employed in this sector. Such a pattern of employment indicates the spatial and organizational dispersion of the workforce in the tertiary sector. In manufacturing, large-scale enterprises (over 300 workers) accounted for 1.6 per cent (854 establishments) but engaged 47.8 per cent (718,424 workers) of all manufacturing employees. The workers in large manufacturing establishments have more opportunity than those in agriculture and services to become "permanent" workers and have greater potential to be unionized.

However, the significant shift in the structure of the economy away from agriculture toward services and export-oriented industry has created many difficulties, with an increase in the incidence of poverty and income inequalities, whereas in past decades Thailand experienced remarkable economic growth, and the incidence of poverty declined slightly. As shown by Krongkaew [1993], the average per capita income in the whole kingdom increased from Baht 8,916 in 1981 to Baht 10,022 and 12,595 in 1986 and 1988 respectively. The annual growth rate of average income during 1981-88 was 5.1 per cent, rising to 12.1 per cent during 1986-1988 when the Thai economy grew at its fastest. Table 8 shows that while the share of people below the poverty line fell from 30 per cent in 1975-76 to 23.7 per cent in 1988-89, the incidence of poverty in the central part of the country, where employment in manufacturing and services is concentrated, continued to increase from 13 per cent to 16 per cent during the same period.

Table 7. Number of establishments and employees by size of establishment and industry in whole country, 1989

Sector	Total		Manufacturing		Tertiary		Mining	
	Establish.	Employees	Establish.	Employees	Establish.	Employees	Establish.	Employees
Size of establishment								
1-99 persons	158,263 (97.5)	1,320,012 (44.6)	51,111 (95.3)	510,172 (33.9)	106,159 (98.5)	788,694 (55.3)	993 (95.9)	21,146 (65.5)
100-299 persons	2,849 (1.7)	464,835 (15.7)	1,657 (3.1)	274,703 (18.3)	1,159 (1.1)	185,205 (13.0)	33 (3.2)	4,927 (15.3)
> = 300 persons	1,283 (0.8)	1,177,178 (39.7)	854 (1.6)	718,424 (47.8)	419 (0.4)	452,537 (31.7)	10 (0.9)	6,217 (19.3)
Total	162,395 (100)	2,962,025 (100)	53,622 (100)	1,503,299 (100)	107,737 (100)	1,426,436 (100)	1,036 (100)	32,290 (100)

Source: Labour Studies and Planning Division, Department of Labour.

During the Sixth Plan (1987-1991), greater income equality could not be achieved despite the rapid economic growth. The widening income disparities during the ten-year period from 1975-76 to 1987-88 can be clearly seen in Table 9. In 1975-76 the top quintile (the richest 20 per cent of the total population) received 43.3 per cent of the country's total income. In 1987-88 this group had increased its share to 54.9 per cent. In contrast, the lowest income groups' share of total income fell from 6 per cent in 1975-76 to 4.5 per cent in 1987-88. The gap in incomes between the two groups grew from 8 to 12 times during this period.

In short, the export-oriented industrialization that has taken place in Thailand not only brought about significant structural shifts, but the benefits of economic growth were unequally distributed. Labour mobility from farm to factory occurred slowly. The pattern of employment also increased the spatial and organizational dispersion of the workforce. Although the number of wage earners increased, proletarian concentration in the Marxist sense rarely occurred in Thailand.

IV. The intervention of the State in the labour processes

The export-oriented development strategy in Thailand, which occurred in a different political context from that of the East Asian NICs referred to earlier, led to different patterns of labour control being practised.

When the IS policy was adopted, the State extended direct control of workers. After imposing Martial Law in 1958, the military government abolished the first Labour Relations Act of 1956, thereby banning all strikes and trade union activities as well as arresting union leaders. Labour protection measures were very limited and the working day was long, 10 to 12 hours. The wage policy of the government, based on the fixing of a low price for rice, permitted a compression of the money wage, and hence a reduction in the cost of production which was seen as an incentive to foreign investment.

Following the people's uprising in October 1973, workers were able to organize. With the spread of socialist ideology, organized labour became involved in politics. Labour disturbances deriving from both economic and political issues were numerous. By the mid 1970s, or during early EOI, the political exclusion of labour and increased labour discipline were seen by the authorities as a prerequisite for successful export promotion. But in the new political situation, labour controls became more indirect than before. This was partly due to the relatively fragmented elite groups comprising military-bureaucratic alliances, businessmen and politicians. In this section,

Table 8. Poverty incidence between 1975/76 and 1988/89 (per cent)

Region	1975/76	1980/81	1985/86	1988/89
Whole Kingdom	30.02	23.04	29.51	23.67
North	33.20	21.50	25.54	23.23
Northeast	44.92	35.93	48.17	37.45
Central	12.99	13.55	15.63	15.97
South	30.71	20.37	27.17	21.49
All villages	36.16	27.34	35.75	29.43
All sanitary districts	14.76	13.47	18.55	13.18
All municipal areas	12.53	7.51	5.90	6.14

Source: Pasuk Phongpaichit and Shigeru Ito (eds.): *The informal sector in Thai economic development*. Tokyo, Institute of Developing Economics, 1992, p. 2.

Table 9. Income share by quintile group of population (% of total income)

Quintile	1975/76	1980/81	1985/86	1988/89
1. Top 20%	49.26	51.47	55.63	54.88
(highest 10%)	33.40	35.44	39.15	37.76
2. Second 20%	20.96	20.64	19.86	20.26
3. Third 20%	14.00	13.38	12.09	12.27
4. Fourth 20%	9.73	9.10	7.87	8.09
5. Lowest 20%	6.05	5.41	4.55	4.50
Total share	100.00	100.00	100.00	100.00
Gini coefficient	0.426	0.453	0.500	0.480

Source: Adapted from: (a) Suganya Hutaserani and Somchai Jitsuchon: "Thailand's income distribution and poverty profile and their current situation", paper presented at the 1988 TDRI year-end conference on income distribution and long-term development (Table 2.2, p. 17) and (b) Medhi Krongkaew: "New poverty line for Thailand", paper presented at the sixth annual conference on Thai economy and changes, held by the Economics Society of Thailand, 21 January 1993 (Table 7).

the pattern of indirect intervention by the State will be explored. The following section will discuss management-centred labour control, which occurred mainly at the level of the enterprise.

1. The Labour Relations Act of 1975

One form of the intervention of the State in labour processes was the creation of a legal framework for industrial relations which encouraged weak and fragmented unionism. The Labour Relations Act of 1975 reco-

gnized unions with as few as 10 registered members, and a group of 15 unions, without regard to membership, can set up a national labour congress. As a consequence, more than one union is often established in an enterprise. For instance, in the Bangkok Mass Transport Organization there were 22 unions in 1990. The textile unions set up two competing Textile and Garment Federations. Table 10 shows that in September 1991 each of a total of 649 unions had an average of only 248 worker members. Moreover, out of the total number of unions, only 399 or 61 per cent were affiliated to six national centres. That means that, out of the total of 161,200 organized workers, about 67 per cent or 107,700 were members of the national labour congresses. Among the six national congresses only the LCT and the TTUC have about 30,000-40,000 worker members. The NCTL and the NFLUC have 10,000-20,000 worker members while the other two congresses, the NLC and the TCIL, have less than 4,500 members. This picture is a good reflection of the fragmentation of the union movement and its low organizational strength and bargaining power.

Although the authorities granted the workers' right of trade unionism, they did not encourage the development of strong unions. There have, for instance, been no government measures to form professional trade unionists like in developed industrial countries. This caused all national labour centres to be relatively weak in several respects. First, they lack full-time, capable administrators and staff responsible for preparing, monitoring and evaluating campaign issues. The lack of staff makes it difficult for the centres to identify and respond to the basic needs of the rank and file workers. Second, the national centres lack basic information about the labour market and the employment situation. They have no research capacity to collect and produce their own data on the macroeconomic situation, wage structures, employment conditions and so on. Without substantial basic data it is difficult for the national leaders to put forward critical issues, ideas or solutions on employment and labour policies and problems. The first and second weak points led to a third shortcoming, which is the lack of long-term policies and strategies. The centres are usually busy with day-to-day administration, the election of tripartite committees and the move for wage increases that has become a routine issue every year. Therefore, they pay less attention to other structural employment problems, whether industrial relations or wage structures.

At the national level, the national labour congresses have been controlled by the State, preventing direct participation in politics. In other words, the workers have been unable to get access to political decision-making procedures. Only a few labour leaders were, from time to time, nominated as members of the Upper House. The workers' attempt to build up a

Table 10. Trade union membership as of 30 September 1991

Name of National Labour Congress	Member unions	Membership	Average
Labour Congress of Thailand (LCT)	108	38,093	353
Thai Trade Union Congress (TTUC)	103	30,193	293
National Congress of Thai Labour (NCTL)	114	19,858	174
National Free Labour Union Congress (NFLUC)	34	10,895	320
National Labour Council (NLC)	20	4,362	218
Thailand Council of Industrial Labour (TCIL)	20	4,313	216
Independent Trade Union	250	53,451	214

Source: Department of Labour.

Table 11. Labour disputes and strikes in whole country, 1973-91

Years	Labour Disputes	Strikes	
	Number	Number	Workers involved
1973	577	501	177,887
1974	477	357	105,883
1975	460	241	94,747
1976	340	133	65,342
1977	61	7	4,868
1978	156	21	6,842
1979	205	64	16,203
1980	174	18	3,230
1981	206	54	22,008
1982	376	22	7,061
1983	229	28	10,532
1984	86	17	6,742
1985	220	4	648
1986	168	6	5,191
1987	145	4	1,092
1988	120	5	1,444
1989	85	6	2,678
1990	127	7	2,519
1991 (Jan.-Nov.)	130	6	n.a.

Source: Labour Studies and Planning Division, Department of Labour.

formal alliance with such interest groups as intellectuals, farmers and politicians was made difficult because it was regarded by the State as "interfering in politics". The national labour congresses are allowed to fight only on "economic" issues. That means, they have been set up to struggle mainly for their own members. This makes it easy for the workers to be accused of fighting for their own interests without taking public interests into account.

Through the Labour Relations Act of 1975 the government also created favourable conditions for the management to control unions at the level of the enterprise. Since the law does not protect the union promoters during the period of registration, it becomes very easy for the management to terminate their employment. Between 1979 and 1987 there were 54 cases of unfair labour practices by employers; 232 labour leaders and 1,531 trade union promoters were discharged.

2. *Tripartism*

Another means of treating labour issues outside national politics, which emerged at the outset of export-oriented industrialization, was the State's promotion of tripartism. To date seven tripartite bodies have been set up dealing with labour disputes, collective bargaining and labour development. Some are advisory while others have decision-making authority.

The tripartite bodies which function as advisory committees are:

- National Advisory Council for Labour Development (set up in late 1976, 10 government, 5 employer and 5 employee representatives): advisory body to the government on labour policies, labour laws, labour protection and welfare, labour training and education, etc.
- Labour Relations Promotion Committee (set up in 1982, 5 representatives from each party): gives advice to workers, employers and government on sound industrial relations and follow-up to the Code of Practice on this subject.

The tripartite bodies with decision-making authority are:

- Wage Committee (set up in 1972, 5 from each party): minimum wage adjustments.
- Labour Relations Committee (LRC) (set up in 1975, 9-15 members, at least 3 employer and 3 employee representatives): resolves unfair labour practice complaints and acts as an arbitrator in state vs. enterprise disputes.

- Workmen's Compensation Fund Committee (set up in 1972, 4-8 members): resolves appeals by employees and employers and advises the Minister of Interior as to which categories of enterprises should be under the Fund.
- Occupational Safety Standards Committee (set up in 1982): drafts occupational safety standards and advises the Department of Labour on occupational health and safety.
- Labour Court (set up in 1980): each panel comprises a professional judge and an associate judge from both the employer and employee sides.

Intensive state promotion of tripartism in industrial relations in the past two decades resulted in a decline in labour disputes and work stoppages (Table 11). Many of the labour disputes were settled either by the LRC or through the Labour Court. From 1976 to 1983 workers' complaints on unfair labour practices were submitted to the LRC. But after the Labour Court was established labour disputes have been increasingly resolved through this means (see Table 12).

That industrial conflict rarely led to strikes and demonstrations seems to benefit the government, in respect of political stabilization and relative autonomy in policy development, more than the employees in the form of sound wages, working conditions and welfare. As mentioned in the previous section, the growth rate in the 1980s was quite high but the real wage rates determined by the Wage Committee hardly changed. Moreover this Committee did not play a significant role in improving the enforcement of minimum wage rates. Furthermore, the LRC does not function well in protecting the right of workers to organize unions.

Apart from the Wage Committee and the LRC, the Labour Court deserves some remarks. The Labour Court endeavours to operate on the basis of four principles: minimal delays, low cost, convenience and justice. At present the Labour Court still has some weakness. The number of professional judges has not kept pace with an increase in the volume of cases. A backlog of cases is now leading to delays in adjudication. When the judge has insufficient time to undertake thorough fact-finding, the role of lawyers grows in importance, though in theory the Court's manner of operation was intended to reduce the need for lawyers. Such a trend favours the employers since they usually prefer to have the assistance of lawyers for efficiency and speed while the workers, on the contrary, cannot afford these costs [Samakkhitham, 1989].

Table 12. Number of cases presented to the Labour Relations Committee and to the Central Labour Court, 1975-84

Year	Cases presented to LRC			Cases presented to the Labour Court
	Total	Labour disputes cases	Unfair practices cases	
1975	109	8	101	—
1976	257	21	236	—
1977	166	28	138	—
1978	181	43	138	—
1979	226	49	177	—
1980	276	59	217	—
1981	295	20	275	4,276
1982	259	22	237	3,825
1983	231	9	222	4,070
1984	141	5	136	5,510
1985	135	8	127	7,888
1986	132	0	132	8,281
1987	152	8	144	6,877
Total	2,560	280	2,280	40,727

Source: Arom Phongpha-ngan Foundation, *Tripartism and the Labour Movement in Thailand*, 1989:50,54,115

Still, the Labour Court commands greater confidence from both employers and workers than the LRC. The greater role of the Court in settling disputes is attributable, in part, to its wider scope. The Court is empowered to deal with any alleged violation of rights or duties under any labour statutes, collective agreements, or formal statements of employment conditions. The LRC can only deal with unsettled disputes in state enterprises, the public sector and specific ministerial referrals. Moreover the main focus of the LRC's work is to consider allegations of unfair labour practices as set out in the 1975 Labour Relations Act. There are, however, important differences in the amount of time taken to settle disputes in the Labour Court and in the LRC. A typical case submitted to the Court requires approximately six months to be adjudicated, and a further six months is required if there is an appeal. By contrast, the LRC requires about 30 to 90 days to render its arbitration decisions and decisions on allegations of unfair labour practices. It should be noted, however, that awards or decisions of the LRC can be brought before the Labour Court for reconsideration. Thus the apparent promptness of the LRC is often illusory. Acquiescence in Labour Court judgments by employers seem to be greater than their acceptance of the LRC's decisions. In part this is

attributable to the enforcement mechanisms. The Court can instruct a justice officer to seize money or property in order to force compliance with a judgment. The LRC can only refer a case of non-compliance to the Criminal Court.

While the Labour Court has increasingly played a significant role in dispute settlement, it has a negative impact on the Thai union movement. Competition among the national labour congresses for positions of associate judge has become sharp and apparent. One reason is that such a position offers worker representatives both material benefits (in terms of per diem, travel fees and accommodation allowances) and higher social status (an associate judge is appointed by Royal command and can apply for a Royal decoration). In theory, trade unions enjoy the right to elect their own representatives. But in practice self-determination is not fully utilized; rather the lists of candidates are determined by the leaders of the labour congresses who, in turn, lobby for acceptance by trade unions. Such practice leads to allegations of favoritism and corruption in the labour congresses as well as a loss of confidence among the rank and file in their national leaders and, to some extent, in the institution of tripartism.

V. Employment adjustment: The enterprise-level control of labour

Since export-led industrialization was based on cheap labour and low technology, the export manufacturers have to maintain internationally competitive labour costs as a basis for growth. Since the mid-1980s, there has been a tendency for employers to adjust forms of employment through casualization of labour and subcontracting. The phenomenon in Thailand is not very different from that observed in India and the other ASEAN countries [Edgren, 1989].

1. Casualization of labour

Casualization entails a reduction of the number of permanent employees and a transfer of their duties to casual workers, temporary workers with renewable contracts and apprentices, who are engaged by the enterprise but are not counted among its staff. Short-term employment is widespread in the textile, and food and beverage industries. A survey of employment in 5 major industrial areas in 1988 indicated that out of the total of 74,000 employees, about 23 per cent were hired on a temporary basis (see Table 13). The short-term employment situation in the Omnoi and

Table 13. Number of temporary employees in various industrial areas, 1988

Industrial areas	Factories surveyed	Total employees	Temporary employees	%
Prapadaeng and nearby	46	32,062	5,927	18.5
Omnoi, Omyai	31	9,387	5,702	60.7
Rangsit and nearby	32	26,464	4,091	15.5
Phuket province	2	467	190	40.7
Hotel business in Chiang Mai and Bangkok	9	5,636	1,224	21.7
Total	120	74,016	17,134	23.2

Note: Most factories surveyed are large-scale with over 300 employees and are unionized.

Source: Somsak Samakitham: "Labour relations strategies and short-term employment". Arom Phongpha-ngan Foundation, 1988.

Omyai area, where the textile industry dominates, is the most serious; about three-fifths of the workers surveyed were hired temporarily. In the hotel industry, in Phuket province, about two-fifths of the employees were temporary workers.

The trend in the food and beverage business was similar. As shown in Table 14, the number of temporary and subcontracted workers in the 15 establishments surveyed increased from 1,082 in 1987 to 2,419 in 1988 or by 2.4 times. The spread of temporary employment was not limited only to medium and small firms but was also evident in large-scale businesses with billions of Baht of investments. Some have expatriates as large shareholders and are supported by the Board of Investment. Some are affiliates of multi-national corporations or joint ventures between Thai and foreign investors, for example the Sermsuk (Pepsi) Co., Achinomoto, Nestle, Safcol and the Oriental Hotel.

Temporary workers have been employed in every aspect of the production process. In general, they have to do the same job as the permanent workers but get less remuneration and legal protection. Short-term employment has been used only as a mechanism to reduce the costs of production. The higher the wages and greater the welfare a company gives to a permanent employee, the more it can save by hiring a temporary one. Short-term employment also operates efficiently to increase working days. A permanent employee in the hotel, food and beverage business is entitled to about 60 days paid sick leave plus holidays; a temporary worker gets only unpaid leave. According to the labour laws, an employee designated as a temporary employee does not enjoy paid leave during the first 120

Table 14. Number of temporary employees and permanent employees in food and beverage businesses, 1987-88

	Permanent employees		Non-permanent employees				Percentage of non-permanent employees in total employment by selected businesses	
	1987	1988	Temporary employees 1987	Temporary employees 1988	Subcontracted employees 1987	Subcontracted employees 1988	1987	1988
Ajinomoto (Thailand)	400	317	600	1,200	—	—	—	—
Asian Department Store	—	280	—	—	—	35	—	—
Birley Calif Orange (Thailand)	215	—	13	—	—	—	—	—
Dairy Farming Promotion Organization of Thailand	800	800	50	150	—	—	—	—
Foremost Dairy Prod. Bangkok	500	489	—	35	—	—	—	—
Foremost Friesland	400	400	100	130	—	20	—	—
Lam Soong Thailand	180	136	50	76	—	4	—	—
Nestle (Thailand)	400	410	32	100	—	10	—	—
Safcol (Thailand)	49	187	200	140	—	—	—	—
Sernsuk	3,700	4,539	—	100	—	—	—	—
Siam Air Service	—	215	—	—	—	65	—	—
Thai Churos	430	419	10	—	—	—	—	—
Thai President Food	—	676	—	300	—	—	—	—
Thai President Rice Prod.	—	90	—	150	—	5	—	—
Thanakorn Vegetable Oil Prod.	230	230	40	25	—	18	—	—
Total	7,304	9,403	1,082	2,419	—	157	14.8	27.4

Source: NongYao Nawarat et al. *The pattern of employment: Study of the impact on workers and workers' organizations in hotel, food and beverage and allied industries. 1988.*

days and has no right to claim dismissal pay in case he works less than 240 days. In principle, an application of temporary employment is meant for work which has a temporary or seasonal nature. But in practice, short-term employment is applied in many hotels, textile, and food and beverage establishments as well as department stores and has the nature of permanent work. These temporary employees are assigned the same tasks as the permanent employees but are hired under short-term contracts which will be extended on expiry.

2. Subcontracting

Another current feature of employment adjustment at the enterprise level is the tendency for medium-and large-scale factories to subcontract part of their production to smaller enterprises of both the formal and informal type. The major motivation for subcontracting is to reduce costs. Lower costs in the subcontracting firm mean lower wages and limited or no benefits for workers. The practice of subcontracting is found particularly in export manufactures like the food and beverage industry, oil production, and the garment and handicraft industries.

Let us take ready-to-wear garments, which have been an important source of the country's foreign exchange earnings and of manufacturing employment, as a case study.

The pattern of employment in the garment industry can be classified into two types. First, factory production. In 1987 there were 1,247 registered factories in Bangkok and 105 in other provinces [Samakkhitham, 1990]. Most of these factories are medium-sized. Very few are on a large scale with 1,500-2,500 employees. A survey by the National Economic and Social Development Board showed that, in 1987, the share of large factory production in garment employment was about 35 per cent, or 17,000 employees. All of the employees were female and most were migrants. The average wage was about 90 Baht per day. In large-scale factories short-term employment was usually applied. It was found that in five large-scale factories short-term employees numbered 57.6 per cent of the total 7,300 employees [Poonpanich, 1991].

A second type of employment in the ready-to-wear garment industry is subcontracting. This pattern involves about 280,000 workers in Bangkok and 500,000 workers in other provinces (Table 15). The production process primarily concerns cutting and sewing. Subcontractors obtain work from various sources such as export-oriented, large-and medium-scale firms, boutiques, family-owned enterprises or middlemen. Designs and cloth are provided. Subcontractors entrust work and certain tools to their

Table 15. Pattern of employment and wages in the ready-to-wear garment industry, 1987

Pattern of employment	Number of workers involved (persons)	Wages per day (baht)
1. Factory production	17,000	80-100
2. Subcontracting		
— in Bangkok	280,000	70-80
— in other provinces	500,000	50-70
Total	797,000	

Source: Revised from Somsak Samakkhitham: "Structural changes and industrial employment", paper presented at the ILO Seminar on labour and job security, 1990, p. 48, table 27.

employees, most of whom are female. The workforce is unskilled, or semi-skilled with some previously acquired on-the-job training. Labour remuneration is based on piece-rates, for instance, 8-15 Baht per piece depending on the type of work and worker's experience. Since payment by piece puts emphasis on quantity, workers usually have to work very hard with long hours. Working hours can reach 13-14 hours per day, from 8 a.m. to 10 p.m. An experienced worker may earn 80 Baht per day. Subcontracting operates without observing labour law or minimum wage regulations. The working arrangement is usually without a formal contract either between the main employer and the subcontractor or between the subcontractor and the worker. However, working agreements are observed quite strictly. For instance, if a product is of poor quality and is rejected by the contractor, the worker that made the mistake has to buy back the damaged product. Employment relations in small-scale garment enterprises are based on patron-client or superior-subordinate relationships. Such relationships function quite well since most of the workforce is recruited through the kinship system, friends, village or regional ties. In many enterprises, food (lunch and dinner) and lodging are provided free of charge. But the worker has to pay for water and electricity. Holidays and sick leave depend on the employer.

It is clear that in respect of income and employment conditions workers in the subcontracting system are in a very disadvantaged position. They are kept busy producing the goods and are not aware of the labour laws and their rights. They do not have time to organize. Currently, there is no state or union intervention in this subsector.

This system of employment is one of the major concerns of trade unionists. One reason given is that it generates differences in pay levels

between the organized and non-organized sectors, and compromises workers' attempts to ensure the enforcement of the official minimum wage rates. Moreover, the existence of short-term employment and subcontracting as an alternative mode of production undermines the growth of union membership and wages in the organized sector. This seems to be the case for Thailand where unskilled job-seekers are abundant and the excess supply tends to be absorbed by the informal sector. In 1989, a series of meetings, discussions and studies on temporary employment and its effects on the workforce were conducted by unions at the factory, federation and national levels, as well as by labour NGOs. On 1 June 1989 the four national labour congresses (LCT, TTUC, NCTL and NFLUC) set up a committee on temporary employment. Proposals and suggestions for an amendment in the legislation concerning temporary employment were submitted to the Government. A national conference on Problems of Temporary Employment was held with 1,200 participants in mid-September. A resolution of the conference was to hold a demonstration on this issue at Sanam Luang. The unions' pressure was so strong that the Government had to calm down the workers' rising discontent by issuing the Ministry of the Interior Decree No. 11.

This decree eliminated the difference between permanent and temporary employees by introducing a broader definition of "employee", to cover a person who works for an employer whether for wages or not. The term does not include a person who is hired for domestic work. Under the decree, temporary workers are better protected. They are entitled to be paid during weekends, annual holidays, traditional holidays, for sick leave and during leave for military service. Moreover, a temporary worker who has been working longer than 120 days should receive dismissal pay.

But the unions considered that the decree still had a number of shortcomings. A serious one was that the law does not prohibit the use of casual, seasonal and project workers. A survey of temporary employment after the enforcement of Decree No. 11 showed that many employers refused to transfer the temporary workers to the regular payroll. This was the case, for instance, for 630 employees of the CEI company in Prapra-daeng and the nearby area, 600 employees of the Sammit Motors Company in Omnoi-Omyai, 150 employees of the PTL Industrial Company in the Rangsit area, and 2,500 employees of the Piyawat Industry Company in Bangkok. It was found that 11,700 workers, or 11.6 per cent of the total of 101,200 employees surveyed in industry and the hotel business in Bangkok and nearby areas, were still hired on short-term contracts [APF, 1991]. Many employers argued that casual workers were necessary since the assignments were project work. But in fact short-term employees were

to work side by side with permanent employees on the production line. Only in a few enterprises did the trade unions succeed in having the employers conform to the decree.

It was also found that many employers still tried to evade the law. For instance, workers were hired for two to three months or 105 day contracts. In this case they received no benefits when the contracts expired. But after their expiration the contracts were usually extended. In some enterprises, workers were told to resign after the probationary period and were told to re-apply for the same job.

Another weakness of Decree No. 11 is that subcontract workers and piece-rate workers are not protected, though the unions made strong recommendations for this. The trade unionists realized that subcontracting directly weakens the union's bargaining power. The case of the Thai Asahi Company is quite remarkable. After Decree No. 11, the trade union asked the company to transfer 200 short-term employees to permanent status. The company agreed but later introduced subcontracting on a large scale. Such tactics effectively threatened the power of the unions.

In short, it can be said that trade unionists consider Decree No. 11 as being only a political move on the part of the Government in order to delegitimize the unions' opposition to management's control of labour.

VI. Minimum wage negotiations and workers' life chances

In earlier sections, it was pointed out that the nature of the export-led industrialization brought about rapid growth but has widened income inequality. Industrial workers who took on the burden of export production benefited very little from the growth performance, as evidenced by their low wages and income.

Trends in wage levels reflect the unequal distribution of benefits from the export-led growth. As shown in Table 16, wage differentials persist in terms of sector, location, industry and gender. In general, government employees were higher paid than private sector employees. But workers in both sectors in municipal areas enjoyed higher average wages than those in the non-municipal areas. A reason is that most of the business and industrial establishments are situated in municipal areas, especially in and around the Bangkok Metropolis. Female employees in both government and private sectors are paid less than male employees in all industries, especially in agriculture and manufacturing.

Table 16. Average wages by industry and gender, August 1987

Industry	Private employees				Government employees			
	Municipal area		Non-municipal		Municipal area		Non-municipal	
	M	F	M	F	M	F	M	F
Agriculture	3,214	915	1,171	928	4,144	1,606	2,665	2,092
Mining	4,670	3,705	1,858	1,152	4,500	—	—	—
Manufacturing	2,986	2,117	1,959	1,504	5,395	3,916	6,586	1,984
Construction	2,915	1,940	2,004	1,938	1,575	—	—	1,404
Electricity	n.a.	n.a.	1,820	—	5,470	3,392	5,264	2,523
Commerce	3,836	2,971	1,621	1,460	6,076	5,899	3,195	4,382
Transport	3,631	4,166	1,684	1,202	5,753	5,388	4,087	2,329
Services	2,683	1,529	2,053	1,040	4,164	4,206	3,206	3,417
Other	3,169	4,943	—	—	—	—	—	—
Average	3,223	2,115	1,569	1,201	4,634	4,290	3,470	3,333

Source: National Statistical Office, Labour Force Survey (Round 3), August 1987.

Table 17 demonstrates that in the private sector wages also vary according to the size of establishments. An important observation emerging from the official statistics in this table is the claim that even workers in micro-enterprises (1-4 employees) or informal arrangements earned above the minimum wage rate. However, it was found to the contrary that quite a number of employers refused to pay the minimum wages. A survey by the Office of the Wage Committee in 1990 found that 44 per cent out of the 1,479 surveyed workers were not paid the official minimum wage rates. This was the case for 26 per cent of those in the Bangkok Metropolitan area and Phuket and 42-58 per cent of those in other provinces. The number includes both unskilled and semi-skilled employees. The poor compliance with the minimum wage is considered due mainly to the relatively minimal punishment.

Table 18 shows that from 1975 to 1990 trade unions managed to obtain an increase in the minimum wage. Moreover, nominal wage differentials between Bangkok and other regions, for instance the north-east, tended to decrease. From 1975 to 1990 the average real minimum wage in the whole country rose 1.65 times. But in the same period, total output rose 3.1 times, almost twice as much. Moreover, almost all the increase in real wages occurred before 1980, since when there has been little change. If it were not for the trade unions' campaigns, one can imagine how small would have been the share of benefits from economic growth received by non-agricultural employees.

The workers who rely mainly on daily wages can lead only a desperate life. According to a survey by the Office of the Wage Committee, in 1988 a worker family in such big cities as Bangkok Metropolitan, Phuket, Chonburi, Saraburi, Korat and Chiangmai earned less than its expenses. For instance, a worker family in Bangkok spent 3,558 baht per month while it earned only 2,965 baht. That means its expenses were 17 per cent, or 593 baht, higher than income. In Phuket a worker family earned 4,502 baht but spent 4,939 baht per month. The deficit was 9.7 per cent or 437 baht (see Table 19). Of course, situations like this are not sustainable in the long term, and may reflect a better statistical measurement of consumption than income. But the reality of the problem has been confirmed in a recent study by Piriya-rangsan and Limskul [1991]. They showed that the average expenses of a worker in the textile and garment, iron and metal, electronics, chemical and petro-chemical industries were 4,982.5 baht per month. In 1991 the nominal minimum wage was set at 100 baht per day or 2,600 baht per month. This makes overtime work for unskilled employees inevitable. Many of them reduced their expenses by living at the subsistence line. Some, for instance, consumed not only cheap but low

Table 17. Average monthly wage of private employees in non-agricultural activities by size of establishment, 1989-1991 (in Baht)

Size of establishment	1989 ¹			1990			1991 ²		
	Average minimum wage	Average wage	Percentage of employed people	Average minimum wage	Average wage	Percentage of employed people	Average minimum wage	Average wage	
1-4	—	2,591.37	6.8	—	2,757.18	8.1	—	2,944.74	
5-19	—	2,693.28	15.0	—	3,026.23	15.5	—	3,666.97	
20-99	—	3,378.83	22.7	—	3,403.70	20.5	—	4,284.06	
100 and over	—	3,674.35	55.4	—	3,872.67	55.9	—	4,433.56	
All sizes	1,835.6	3,579.57	2,962,025	2,127.58	3,752.63	3,217,735	2,359.5	4,394.53	

Notes: Average minimum wage = daily average minimum wage in the whole country x 26 working days.
¹ Minimum wage issued on 1 April 1989. ² Percentage of employed people not available for 1991.

Source: DOL: *Yearbook of Labour Statistics*, various years.

Notes: Average minimum wage = daily average minimum wage in the whole country x 26 working days.

¹ Minimum wage issued on 1 April 1989. ² Percentage of employed people not available for 1991.

Source: DOL: *Yearbook of Labour Statistics*, various years.

Table 18. Nominal minimum wage and real minimum wage in the whole country, Bangkok and the North-East, 1975-90 (in Baht)

Year	GDP at 1987 prices, Billion Baht	GDP index	Average minimum wage in the whole country	Real wage in the whole country ¹	Index of real wage	Minimum wage in Bangkok	Real wage in Bangkok ¹	Minimum wage in the North-East	Real wage in the North-East ²
1975	567.95	1.00	19.67	20.49	1.00	25	26.23	16	16.37
1976			19.67	19.67		25	25.00	16	16.00
1977			22.67	21.07		28	25.83	19	17.98
1978			29.33	25.26		35	29.69	25	21.93
1979			39.33	22.99		45	34.61	35	28.39
1980	827.57	1.45	48.33	31.65	1.54	54	34.64	44	29.35
1981			55.00	31.96		61	34.50	52	30.75
1982			57.25	31.61		64	34.35	52	29.18
1983			60.25	32.06		66	34.27	56	29.76
1984			60.25	34.79		66	34.02	56	29.72
1985	1,086.00	1.90	64.60	33.28	1.62	70	34.97	59	31.07
1986			64.60	32.68		70	34.36	59	30.59
1987			67.00	33.07		73	34.93	61	34.03
1988			67.00	31.84		73	33.67	61	29.86
Jan. 1989			68.80	32.12		76	34.34	63	30.69
Apr. 1989			70.60	32.48		78	34.59	65	31.45
Apr. 1990 ²	1,759.30	3.10	81.83	33.77	1.65	90	37.14	74	34.56

Note: ¹ CPI 1976 = 100. ² CPI as of November 1989.

Table 19. Income and expenses of worker families earning the minimum wage or less, 1988

Region	Size of family	Monthly income per family	Monthly expenses per family	Monthly savings per family
All regions	3.2	4,214	3,650	564
Bangkok	2.3	2,965	3,558	-593
Surrounding provinces	2.7	5,052	3,485	1,567
Phuket	2.9	4,502	4,939	-437
Ranong, Pang-nga	4.0	4,557	2,913	1,664
Cholburi, Saraburi, Korat, Chiangmai	3.4	3,752	3,811	-59
Other provinces	4.4	4,023	3,724	299

Source: Office of Wage Committee, Department of Labour: "Income and expense of low-income worker family in 1988", 1989, p. 23.

quality food. Others consumed rice and preserved fish prepared by their relatives in the villages. Some earned additional income through selling daily consumption goods to their colleagues and neighbours.

Government schemes for improving the income and welfare of employees to catch up with the rising costs of living were limited and still have some weaknesses. The workers have therefore concentrated their attention on demands for wage increases. At the national level they have submitted, every year, a demand for minimum wage increases. The national tripartite Wage Committee did not take any initiative since it would call for a meeting only after the workers handed in their wage demands. This move has become a single regular but dramatic issue among trade unionists. At the enterprise level the workers submit wage demands directly to the management. But regular wage negotiation between labour and management has not been institutionalized at a broader level and is not even accepted in many establishments. In Table 20, it can be seen that major issues of labour disputes from 1987 to 1989 concerned welfare (33 per cent), wages (20 per cent), conditions of employment (18 per cent) and other issues (29 per cent). It is noteworthy that employers' actions appear to be a major cause of disputes, as shown in Table 21. During 1987-1989 there were 20,500 cases which were brought to the Labour Court. Out of these, 54.9 per cent or 11,300 cases concerned the employers' evasion of the labour laws; 39.7 per cent or 8,100 cases concerned the employers' refusal to comply with employment contracts. These two types of issues accounted for 19,400 cases or 95 per cent of the total.

Table 20. Number of labour disputes by type of issue, 1987-89

Year	Total disputes		Demands				Total issues					
	Establishments	Number	Employment conditions	Working hours	Wages	Welfare		Discharge	Grievances	Others		
1987	128	145	169	100	194	293	944	19	109	60		
1988	109	120	147	58	164	308	836	12	63	84		
1989	74	85	157	63	178	291	888	15	89	95		
Total	311	350	473	221	536	892	2,668	46	261	239		

Source: Labour Studies and Planning Division, Department of Labour.

Table 21. Number of cases referred to the Central Labour Court by type of issue, 1987-89

Type of issue	Total	1987	1988	1989
Breach of employment contracts or collective agreements	8,114	2,288	2,716	3,110
Breach of labour protection or labour relations law	11,252	3,582	3,732	3,938
Others	1,122	423	326	373
Total	20,488	6,293	6,774	7,421

Note: "Others" are demands concerning personnel staff, the price of products, and recruitment.

Source: Department of Labour.

VII. EOI and female workers

As shown in Table 22, female labour force participation rates in Thailand over the period 1960-1990 have been relatively high, compared to other newly industrialized countries in Asia, and almost as high as men's (Table 23). During the period 1960-1990 women accounted for about 47-48 per cent of all workers. The majority of women were employed in agriculture, followed by commerce, services and manufacturing. More women than men were engaged in commerce. Due to rapid industrialization and urbanization since the 1970s, women's employment grew continuously in manufacturing and services, but declined in agriculture.

The majority of women workers are in unpaid family labour. This is related to the fact that agricultural employment is still predominant despite the structural shifts since the 1970s. Fewer women than men become wage workers. As shown in Table 24, only 6.5 per cent of employed women were reported as employees in 1960. The share increased to 19.5 per cent in 1982, but compared to other Asian NICs, the percentage of Thai women who are paid employees is quite low. In Korea, where the agrarian economy was overtaken by rapid industrialization, the percentage of women workers who are paid employees increased from a low base level (15.3 per cent during the 1960s) to 49.3 per cent in 1987. In Hong Kong and Singapore the proportion of employees among women workers has been continuously high, i.e. between 70 and 80 per cent.

In Thailand the role of women in the manufacturing sector is quite remarkable. Although the total number of male and female wage workers in this sector is not markedly different, women predominate in export

Table 22. Female population and labour force participation rates in Thailand and selected Asian countries, 1960-90 (in thousands)

Country	1960		1970		1980		1990 ¹	
	Total	Female	Total	Female	Total	Female	Total	Female
Thailand	26,257.9	13,102.7	34,397.4	17,267.5	44,824.5	22,501.9	54,532.3	27,501.1
Population 11 years of age and over	17,311.0	8,669.2	22,461.6	11,381.6	32,357.5	16,396.0	41,152.8	20,953.1
Labour force	13,837.0	6,692.2	16,850.2	7,939.4	21,790.9	9,976.3	30,499.9	14,016.5
Labour force participation rate (%)	79.9	77.2	75.0	69.8	67.3	60.8	74.1	66.9
Hong Kong ²	—	38.8	—	46.0	—	53.7	—	—
Japan	—	53.8	—	54.4	—	51.6	—	—
Korea	—	29.4	—	44.4	—	41.5	—	—
Singapore	—	—	—	31.1	—	47.1	—	—

Notes: ¹ In 1990 labour force means population 13 years of age and over. ² Years to which data correspond are 1961, 1971, 1981.

Sources: National Statistical Office, Population census, 1960-1980; Advanced report-population census, 1990; and ILO-ARTEP: *Employment challenges for the 90s*, 1990, p. 61.

Table 23. Employed persons by industry and sex in whole country, 1960-90 (percentage distribution)

Industry	1960		1970		1980		1990	
	Male	Female	Male	Female	Male	Female	Male	Female
Agriculture	40.5	41.9	39.9	39.4	35.9	36.4	33.0	33.0
Mining and quarrying	0.2	0.1	0.4	0.1	0.3	0.1	0.1	0.0
Manufacturing	2.1	1.3	2.4	1.7	3.0	2.6	3.6	3.5
Construction, repair and demolition	0.5	0.0	0.9	0.2	1.2	0.3	1.9	0.5
Electricity, gas, water and sanitary services	0.1	0.0	0.1	0.0	0.2	0.0	0.3	0.0
Commerce	2.6	3.0	2.4	2.8	3.1	4.2	3.5	4.6
Transport, storage and communication	1.1	0.1	1.5	0.1	1.6	0.1	1.6	0.2
Services	3.3	1.4	4.5	2.6	4.8	3.3	7.2	5.4
Activities not adequately described	1.1	0.6	0.6	0.2	1.6	1.2	0.9	0.8
Total	51.6	48.4	52.9	47.1	51.8	48.2	52.0	48.0

Source: National Statistical Office, Population Census 1960-1990.

Table 24. Percentage of employees among women workers in selected Asian countries

Country	Years	1960s	1970s	1980s	1985 +
Hong Kong	1961, 71, 81, 87	79.3	86.2	89.2	88.1
Japan	1960, 70, 80, 87	41.6	52.7	62.6	66.5
Korea, Republic of	1960, 70, 80, 87	15.3	29.5	34.8	49.3
Singapore	1957, 70, 80, 87	72.1	68.4	86.2	85.7
Thailand	1960, 70, 82	6.5	10.4	19.5	—

Source: ILO-ARTEP: *Employment challenges for the 90s*, 1990, p. 68.

industries. In 7 out of 10 important export industries women constitute more than 80 per cent of the workforce. Such industries include integrated circuit boards and electronic parts, garments and textiles, food, jewelry and precious stones, leatherware and footwear, and cotton yarn fibre. These industries brought in Baht 260 billion in export earnings in 1989 [GDRI, 1991]. A large number of women were engaged in the urban and rural informal sector as subcontract workers in weaving, artificial flower making, wood carving, umbrellas and food-processing [CURSI, 1990]. Female employment is favoured in such industries as textiles, electronics, handicrafts, and food and beverages since they require only a low-skilled workforce. Moreover, women are seen as easily trainable and docile. Some may claim that these women workers are unskilled and the value of their contribution cannot be compared to those of the managers. But it is quite obvious that in the last decade women workers have contributed greatly to the country's economic growth.

Although women workers produce high value-added components, they are less protected than men. A survey on problems of female employment at the enterprise level revealed that women were usually employed on a daily basis and as piece-rate workers while men in the same industries were hired on a monthly and daily basis [DOL, 1988]. Women were also paid less than male colleagues in the same firm even though both contributed equally to the output. We can see from Table 16 that the average monthly wages for women in almost every industry were lower than those of men.

Female workers are exposed to a variety of occupational health risks, for instance, strain in food processing industries and eye-concentration in electronics establishments. Research into the workers' health in 433 textile

establishments in Samutprakan, one of the country's largest industrial zones, showed that the majority of workers are exposed to working conditions that cause lung disease and hearing problems [Wongphanich, 1987].

The authors interviewed 25 high ranking female union leaders in September 1991, who indicated that they had no plans to end their lives as wage-earners. According to the employers' rule they had to cease work at between 25 and 45 years of age. Most of them preferred to move into self-employment in activities such as commerce, hairdressing and dress-making. We were informed that many female workers who had been retired from large-scale establishments could find employment in smaller factories and had to accept less payment and welfare.

Although women workers comprise about half of all wage employees and even more than 80 per cent of workers in 7 leading export industries, they are under-represented in Thai unions. They have no executive authority and no channel to express their problems. Unions usually focus on male workers' problems. While the unions fought for leave for male workers to enter the monkhood temporarily (as is the custom), typical women's problems of child care, housework, nutrition, and maternity leave are not on the agenda of problems to be tackled by the unions. A factor discouraging women's participation in unions is that women generally have a lower educational attainment than men. Thai cultural habits also treat women as only adjuncts to men. Women workers, therefore, have had less opportunity to use their organizing skills, or to plan and participate in developing projects.

Female workers in some industries, for example textiles and garments, are well organized. But the majority in other manufacturing industries and in services lack opportunities. Female trade unionists also do not seem to be equal partners of males in unions. When women join the unions' activities, they tend to let men take the lead. In many textile unions a male worker is often elected as chairman although most of the membership is female. Fewer women obtain leading positions in the national congress. So long as the unions are male-dominated organizations, it is most likely that women workers will continue to be a vulnerable group and specific problems related to female employment will not be tackled.

VIII. Military politics and the destructuring of the union movement

After the coup d'état in February 1991, renewed political intervention by the military led to the revival of the State's coercive policy towards labour. It seems that the National Peace Keeping Council (NPKC) and the

government under Prime Minister Anand Panyarachun viewed organized workers' activities mainly from a political perspective or, to put it more precisely, from their more direct concern with national security. This is reflected in the NPKC's Decree No. 54 and their push for the separation of state enterprise employees from the Labour Relations Act of 1975.

The enactment of the State Enterprise Labour Relations Law changed the structure of the trade union movement and undermined its bargaining strength. Physically, the ban on state enterprise unions resulted in a decrease in the number of organized workers from 338,000 (in early April 1991) to 152,000, which is only about 2.5 per cent of the total of six million private employees. This weakened the basis of the national labour congresses. Among them, the TTUC was the most affected; its membership decreased from 118,200 to only 27,300. The LCT membership decreased from 68,200 to only 27,700. This significantly reduced income from membership fees. Moreover, out of a total of 40 committee members of the TTUC, 20 who were state employees had to resign. This included the president, the vice-president, the deputy secretary general, the treasurer, the head of workers' education and the head of women's labour. All these changes led to a weakening in the administration of the two congresses. There were similar effects on the other national congresses. The number of union federations also decreased from 16 to 14 due to the dissolution of the Electricity Workers' Federation of Thailand and the State Enterprise Workers' Relations Group. Other federations either lost important member unions or had to change their pattern of organization.

The replacing of public sector unions by a new form of "state employees' associations" makes it difficult for state employees to seek to better or protect their present work benefits through collective bargaining and industrial action. Additionally, the disbanding of the public sector unions weakens the workers' overall bargaining strength. The state enterprise unions had been acting as the spearhead of the labour movement, especially in the moves for a minimum wage increase and a social security law. The State Enterprise Labour Relations Act issued in April 1991 does not allow the combining of the state enterprise employees' associations at a higher level. The state employees are therefore unable to participate in such important tripartite bodies as the Central Labour Court and the National Council for Labour Development because the laws specify that only committee members of "trade unions" can be elected.

In short, the ban on industrial action by state employees disunites the trade union movement as a whole. It undermines the collaboration and solidarity between workers in private and public sectors. Due to the lack of job security and widespread union discrimination in the private sector, it

is difficult for private employees to better their wages and working conditions or to strengthen their organizations. In general the private sector unions are house unions with a small membership and weak financial basis. The leadership has staff with low levels of educational attainment. The private unions are also facing new difficulties derived from the NPKC Decree No. 54 which allows them to use only officially-registered labour advisors and to strike only with approval from over 50 per cent of all the union members. Therefore, it is highly unlikely that the private sector unionists will pay attention to social issues or guide the national trade union movement.

IX. Summary and conclusions

Since the mid-1970s Thailand has shifted away from the import-substitution strategy it had adopted in the late 1950s and moved towards an export orientation. In many ways this process was different from the experience in the four East Asian NICs. The external factors for policy reform were the inflow of international capital and the relocation of light industries into the country. The internal factors were pressure from the local business sector, liberal technocrats and foreign advisors advocating a more liberal development strategy. The reorientation of the economy toward export-led growth was aimed at Thailand achieving NIC status similar to the Republic of Korea, Taiwan (China), Hong Kong and Singapore.

In Thailand the political context of EOI was different to that of other Asian NICs. EOI in the four East Asian NICs occurred under authoritarian political systems, but the Thai political circumstances were more liberal. Thai elites since the mid-1970s were a heterogeneous group, comprising the military-bureaucratic alliance and businessmen competing and negotiating with each other.

In terms of economics the transformation from agrarian to industrial economy occurred very slowly in Thailand. In South Korea and Taiwan labour mobility from farms to factories occurred quite rapidly; in less than two decades the agricultural workforce declined more than 50 per cent. In Thailand the number of wage employees increased much more slowly. Since most of them were not cut off from the village, it is proper to regard them as "semi-farmers and semi-workers" more than "proletariat". Although urban centres were expanding, "proletarian communities" and the concentration of a stable industrial proletariat were not the norm in Thailand, even in the late 1980s. Higher employment in services than in manufacturing, a concentration of manufacturing production in small enter-

prises, the growth of casualization of labour and subcontracting, as well as self-employment and informal sector activities contribute further to the fragmentation of the workforce. A consequence has been a great spatial and organizational dispersion of the growing group of wage earners. In short, the structural economic consequences of export-led industrialization limited the organizational potential and the bargaining power of trade unions.

Labour discipline and peaceful industrial labour is a prerequisite for export-oriented development based on cheap labour. Disciplined labour, since the mid-1970s, resulted from a political exclusion of labour which was guaranteed by the indirect intervention of the State in the labour processes. First, the State created a legal framework for industrial relations which encouraged weak and fragmented unionism. Another form of indirect control of labour is the establishment of institutional conditions for wage negotiation in the labour market. Wage bargaining has been governed through the minimum wage policy, implemented under the supervision of the tripartite National Wage Committee.

The authorities have also encouraged and supported management-centred labour controls and management-dominated unions. Workers' committees were emphasized. The introduction of casualization of labour through short-term employment and subcontracting since the mid-1980s met with no objections from the government. The lack of full, effective enforcement of the minimum wage by the State also helped employers maintain competitive labour costs.

It is true that EOI brought about rapid growth in Thailand. But which groups benefited from such growth? In view of the deterioration in income distribution, it can be observed that the workers enjoyed only a minimal share of the fruits of development. This seems to be in contrast to the situation of labour in the East Asian NICs. The Thai State, employers and technocrats have tried to maintain a low wage labour regime instead of using labour quality and productivity as the basis for growth. Such a strategy affects differently the life chances of workers in different sectors. Only a very small group of skilled employees in the modern formal sector could enjoy high wages, better welfare and fringe benefits since the market demand for skilled manpower, especially in the fields of science and technology, is relatively high. In contrast, the large supply of unskilled labour makes it difficult for this group to obtain better remuneration.

It is quite likely that the continuation of a "low wage regime" in Thailand would not benefit the country in the course of EOI development in the long run. Low wages and non-stable employment would discourage occupational commitment on the part of workers which, in turn, is a pre-

requisite for the upgrading of skills and increasing productivity. To facilitate the transition to a high-technology and high-skill economy, industrial relations policy should be given high priority in national economic policy: the industrial relations system should keep pace with the development strategy. In the Seventh Plan (1992-1996), human resources development is a major theme. Accelerating productivity by improving skills, enhancing health and safety schemes in establishments, promoting full and enhanced employment opportunities, improving women's income, and improving working conditions for women and child workers are set out as guidelines for labour development. However, these tasks can be realized only with support from the concerned parties, namely the employers and the employees.

To achieve these tasks, a well-designed process of unionization may be an alternative. That means, both management and labour should be aware of the great benefit to society from give-and-take bilateral negotiation.

The private sector unions are in great need of basic training in union administration, collective bargaining and industrial relations. In addition, the union leaders need advanced training in labour economics and socio-economic development processes, in order to have a better understanding of the dynamic changes taking place in the country, and to be able to participate more efficiently in bi- and tripartite collective bargaining, as well as to help create better industrial relations within enterprises.

The employers too need a better understanding of how stable industrial relations can contribute to enhanced productivity, especially employers in the small- and medium-scale establishments and foreign investors. Training for employers may reduce the extent of employers' evasion of the law and help strengthen the bipartite system at the enterprise level. A likely side-effect is a decline in interventions in workers' organizations by third parties.

As far as skill development is concerned, the State should encourage management and trade unions to co-operate in establishing skill training and retraining schemes. A programme of this type could start in some establishments where the relationship between the management and the trade unions is well established.

Through such strategies it is likely that industrial peace could be achieved, together with a more equitable sharing in the fruits of economic growth.

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7 The labour market, protective labour institutions and economic growth in the Philippines

Rene E. Ofreneo¹

1. Introduction

This chapter investigates the dynamic interrelationship between the labour market, protective labour institutions and economic growth in the Philippines. Adherents of the neoclassical school of thought in Philippine economic circles assert that an “efficient” labour market is a *sine qua non* for economic growth, an “efficient” market being interpreted as one that responds to price signals. In such a market, the intrusion of labour institutions, e.g. a union or minimum wage legislation, is considered a distraction or an aberration in what is otherwise a well-functioning system of labour allocation. Because institutions lead to “rigidities” or price failures in the market, they are believed to cause declines in economic growth rates and result in more unemployment.

The author takes the contrary position, arguing that the labour market and protective labour institutions are organically linked in the economic process. Both are necessary for the transformation of labour into a factor of production in the modern industrial sense. Further, this chapter questions the validity of a number of neoclassical economic assumptions regarding the impact of certain labour institutions on the economic performance of the Philippines. For this purpose, such assumptions are re-examined in the light of existing historical and empirical data on the nature of labour institutions in the Philippines and the interrelationship between the labour market, labour institutions and the economic process.

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The author however, does not claim that these assumptions, in the context of their own internal logic, are incorrect. The point is that theoretical assumptions do not necessarily correspond to the realities in the world of work. By denigrating labour institutions as aberrations in the market and by ignoring the historical circumstances behind the development of certain labour institutions, the standard economic analysis tends to have a narrow perspective on how labour is transformed into a factor of production in the imperfect labour market of an underdeveloped and segmented economy.

But what are labour institutions? Rodgers [Chapter 1 of this volume] defines labour institutions as "social institutions which affect or derive from the incorporation of labour in production, the remuneration and working conditions of labour, and associated social and economic guarantees". He adds that "labour institutions are those which affect the structure and functioning of the labour market, from within or without". From this broad definition, one can come up with a long list of labour institutions. Such a listing will normally include, among others, the following: employment contracts, rules governing employment contracts, organization and representation of labour, organization and representation of employers, institutions of the labour market (procedures for job placements), wage fixing, wage payments, training institutions, organization of jobs, structure of ownership and control over production, social and state regulation of employment, social security and income guarantee systems, conventional standards of living, and organization of labour supply.

This paper however, is concerned mainly with "protective" labour institutions, which are often cited by neoclassical economists as obstacles to the smooth functioning of the labour market and the realization of faster economic growth in the Philippines. They include unionism, minimum wage fixing, and other laws protective of labour.

The paper first summarizes the standard neoclassical assumptions on the role of protective labour institutions in the labour market and the economic process as a whole. Then, in section III to V it reviews the historical and empirical data in the light of these assumptions. Finally, it comes up with recommendations on how labour institutions should be viewed by economists and other actors in society and how these institutions could be developed or transformed to ensure a better functioning labour market and faster economic growth and development in the Philippines.

II. Standard economic assumptions on the interplay of the labour market and labour institutions

Since the early 1970s, a number of economists, both at the national and the international level, have identified labour market rigidities caused by labour institutions as one reason for the persistence of mass unemployment in the Philippines.

In 1990, Cayetano Paderanga Jr., the then Secretary for Economic Planning and Director-General of the National Economic Development Authority (NEDA), summed up the standard neoclassical critique of the Philippine labour market as follows:

In the Philippines, the industrial structure has been described as dualistic... There is a formal sector made mostly of import-substituting industries heavily protected from both domestic and foreign competition and an informal sector composed mostly by the agricultural and export industries. The latter is made up mostly of firms which have survived the heavy penalties imposed by the protective structure and operate in an environment where costs are pared down to the minimum and where there is little room for excess returns to the various factors. For example, the sector on the average is unable to pay much more than subsistence in a labour market with a large pool of unemployed. The formal sector, on the other hand, enjoys excess returns due to the heavy protection it enjoys.

A worker in the formal sector, therefore, earns more than an identical employee in the informal sector... Ordinarily, this wage differential would induce two changes. First, sectors where wages are relatively low would enjoy competitive advantages and would grow faster than the rest of the economy. Second, the wage differential would induce more workers to shift to the protected sector, leading to a decrease in their wages. However, government policies, at the expense of the low-wage industries, prevent the deterioration of the protected sector's position by protecting them from competition. As a result, the growth differential does not turn in favour of the unprotected sector. At the same time labour unions and government labour laws which are enforceable in the protected sector, ensure that workers in the sectors are able to partake of the abnormal returns and prevent the erosion of their wage premium. One way this wage premium is preserved is through the highly capital intensive processes in this sector induced by policies which also limit the number of workers employed [Paderanga, 1990].

The position taken by Paderanga above is virtually an echo of what Gerardo P. Sicat, another economics professor turned NEDA Director-General, wrote two decades ago. In his highly-influential book *Economic Policy and Philippine Development*, Sicat devoted one chapter to labour policies and criticized the supposedly excessive welfarist tendencies of such policies. He explained that the "Philippines is one less developed country

with relatively advanced social welfare legislation" [Sicat, 1972, p. 247]. He severely criticized the enactment of minimum wage legislation in 1951, which "pushed forward a price constraint on labour to 'organized' economic activity" and "helped those who were currently employed but in general worked against the employment of more labour" [ibid., pp. 249-250]. Sicat, in a critique of Philippine "labour welfarism", summarized the key features of the legal structure as follows [ibid., pp. 264-265]:

- an attempt to shorten the working hours;
- the imposition of a minimum wage which is higher than the market rate;
- the explicit recognition of labour unionism; and
- the existence of social security legislation, with its implied payroll taxation.

He concluded that these features of the legal structure concerning labour welfare tended to increase the price of labour to those hiring it.

Some economists even tried to measure the so-called "over-payment" of the "protected workers" in the "protected sector" of the economy through the estimation of these workers' "shadow wages". Using the shadow pricing method developed by Little and Mirrlees for the World Bank's project evaluation [Little and Mirrlees, 1974], Medalla estimated the shadow wage rates (SWRs) to be between 71 to 91 per cent of the "effective" minimum wages [Medalla, 1979].

In criticizing policies they deem to be unduly protective of labour, the above economists are united in their advocacy of an alternative development strategy focused on so-called labour-intensive, export-oriented industrialization (EOI). This, they argue, has a greater employment creation potential compared to the strategy of import-substitution industrialization (ISI) pursued by the government in the 1950s and 1960s. In order to ensure the success of EOI, they have been battling not only for the dismantling of the various measures that are protective of domestic-oriented industry, e.g. import restrictions, high tariffs, "overvalued" peso, regulated interest rates, etc., but also the scaling down of protection to the workers in the organized sector by promoting a well-functioning labour market unencumbered by some of the labour institutions, which they claim discourage investment and limit employment expansion.

These views were more or less shared by the UNDP-ILO mission on employment in 1974 conducted under the leadership of Gustav Ranis of the Yale Growth Center, one of the arch theoreticians of the EOI gospel in

developing countries. In their report, Ranis and his team [Ranis, 1974, p. 363] recommended the "maintenance of present minimum wage levels", meaning their indefinite freezing at the 1974 levels.

During the last two decades, World Bank economists, in their various reports on the Philippine economy, have also consistently attacked the protectionist walls erected in the 1950s and 1960s, blaming the persistence of mass unemployment in the Philippines on these and on certain rigidities in the labour market. The Bank's 1980 Philippine poverty report argued that under "a relatively well-functioning labour market, labour could only be absorbed at lower real wages".²

To sum up, all these economists are agreed on the following:

- (a) The price of labour in the organized sector has been relatively high due to the protective labour institutions.
- (b) The relatively high price of labour contributes to the persistence of mass unemployment because, on one hand, it reinforces the protected but capital-intensive ISI sector, and on the other, it discourages the growth of the less protected but labour-intensive sector of the economy.
- (c) The solution to faster growth and greater employment, therefore, lies in the labour-intensive EOI development strategy, whose success requires:
 - (i) the dismantling of the protectionist walls for the ISI industries simultaneously with the promotion of the EOI industries; and
 - (ii) the scaling down of protection to labour in the organized sector of the economy in order to make the labour market more efficient through greater reliance on price signals, rather than legislative fiat, in the vending and buying of labour power. Hence, the need to reduce the role of labour institutions, especially if they are perceived to interfere in the pricing of labour.

On paper, the above line of reasoning looks very neat and logical indeed. The trouble is, how accurate and realistic are the assumptions? Are they in line with the historical and empirical data on the labour market, labour institutions and economic growth in the Philippines?

² For a further discussion of this, see World Bank [1980]. See also World Bank [1990].

III. The introduction of the ISI strategy and labour welfarism was a response to the crisis of free trade

It might surprise some critics of the ISI and labour welfarist policies that the ISI and the accompanying labour policies were adopted in the 1950s as a response to the crisis of the free trade policy between the Philippines and the United States in the 1930s and 1940s. A laissez-faire policy regime, as favoured by the EOI proponents, is not new to the Philippines. Free trade existed between the Philippines and the United States from the 1900s up to the 1940s (except during the three years of Japanese occupation).

Ironically, the establishment of protective labour institutions and labour rights, which are enjoyed today by many formal sector workers, came about as a consequence of two major free-trade-related crises — one in the first half of the 1930s and the second in the late 1940s.

1. The crisis of the 1930s, labour reforms and the creation of the Court of Industrial Relations

The decade of the 1930s is vividly referred to in the Philippines as the “red decade” because of the unprecedented incidence of labour strikes, peasant mass actions and agitations by radical political groupings ranging from the native *pulajanes* to the class-conscious Socialist Party and the Communist Party. For the most part these were ascribed to gross social inequalities, in particular the highly unequal distribution of land, and to the limited progress in the country’s campaign for independence from the United States.³ However, the socio-economic crisis of the 1930s was also intertwined with the crisis of the free trade regime.

There are indications that despite early Philippine resistance to American rule and the narrowness of the free trade policy, a modicum of economic growth and development was realized in the regions that participated, directly or indirectly, in the free-trade-guided export crop economy. This was especially true in the case of Manila, the capital of the colonial economy, which experienced continuous population growth due to rural-to-urban migration. Exports grew continuously from the turn of the century up to the boom decade of the 1920s.

³ For a fuller discussion of the political and social situation in the 1930s, see Constantino [1974].

Free trade with the United States helped fuel the unprecedented expansion of export crops such as sugar, coconut and abaca. However, certain events also highlighted the extreme vulnerability of an economy dependent on just a few export crops destined for a single market. Exports declined by more than 30 per cent in the period 1931-35 due to the effects of the Great Depression in the United States [Valdepenas, 1977, p. 114].

By the 1930s, the dynamism and the job creation potentials of the export crop economy had been exhausted. This had a devastating impact on Manila whose manufacturing and service industries were greatly dependent on global demand for the export crops. In turn, the socio-economic repercussions on all categories of workers, organized or not, were quite serious. Kurihara, an American scholar who documented the labour situation in the 1930s, cited various indicators pointing to a deterioration in the standard of living of the workers. Real wages declined by more than 50 per cent between 1929 and 1940 [Kurihara, 1945, pp. 39, 42-43]. The problem of declining real wages was aggravated by the massive problem of unemployment. The official statistics also indicated that unemployment more than doubled from 1.18 million in 1935 to 2.6 million in 1939.⁴ Thus, "the scissors" phenomenon of rising unemployment and declining real wages was not really new in the Philippine historical context!

Quezon's Social Justice Programme

The labour and peasant unrest which raged throughout the first half of the 1930s forced President Quezon to launch his famous Social Justice Programme, aimed at uplifting the situation of both the industrial workers and the peasant masses and providing means for the settlement of industrial and agrarian conflicts. The Social Justice Programme partly drew inspiration from the "New Deal" programme of US President Roosevelt: a package of social, economic and legislative reforms, giving the American workingmen a "new deal" in life during the Great Depression of the early 1930s. Quezon witnessed the dramatic impact of Roosevelt's initiative on a visit to the United States. On his return trip, Quezon passed by Mexico to observe the labour and agrarian reforms in that country. It was clear that Quezon's Social Justice Programme was inspired by the experience of both the United States and Mexico [Kurihara, 1945]. Quezon's labour reforms

⁴ See Kurihara [1945], p. 56. Kurihara, however, expressed doubts about the accuracy of the statistical data on unemployment compiled by the government. Hence, in his opinion, the figures should be taken simply as indicators of a worsening economic situation rather than as accurate measurements of manpower idleness.

consisted of an eight-hour day labour law (No. 444), extension of workmen's compensation (Commonwealth Act (CA) 84 and 210), minimum wage legislation (CA 37, 211, 317), establishment of the Government Service Insurance System (CA 186), and legal protection to members of "legitimate labour unions" (CA 213). These measures were meant not only "to win the support of labour" but also "to establish at least some degree of government control over the labour movement and to lessen the danger of subversion from its radical wing" through strict registration procedures [Carroll, 1961, p. 284].

Compulsory arbitration

One of the most significant labour reforms was the introduction of the system of compulsory arbitration through the passage of Commonwealth Act 103, creating the Court of Industrial Relations (CIR). The CIR's objective was to protect labour and promote industrial peace by regulating labour-management and landlord-tenant relations. This followed a year after the adoption by the country of the 1935 Constitution, which expressly mandated the State to provide compulsory arbitration (Article XIV, Section 6).

Before 1930, there were virtually no laws protecting labour [Fernandez, 1965, pp. 234-235]. On the contrary, the policy was one of outright repression. The Spanish conspiracy law and the US military government's sedition laws held as illegal and subversive all forms of union activities [Puno, 1971]. According to Calderon, a labour scholar, the adoption of compulsory arbitration was not a product of altruism. He concluded that it was a "deliberate policy" meant "to check the surging tide of strikes and uprisings by the tenants and labourers, particularly in rice haciendas and sugar plantations in the country" [Calderon, 1960]. In short, strong government intervention in labour-management and landlord-tenant relations in the settlement of disputes was necessary to stabilize the economy and society.

However, the adoption of compulsory arbitration had, to a certain extent, been favourable to the workers, particularly during the time of its adoption. Perfecto Fernandez, a labour relations law specialist, pointed out that many unions then were "too deficient in financing and leadership" to be able to bargain collectively vis-à-vis management, and that "there is ground to suppose that the unions and labour as a whole fared better from the CIR than would have been possible at the bargaining tables" [Fernandez, 1965, p. 245].

2. *The crisis of the 1940s and the enactment of the minimum wage law and the Magna Carta of Labour*

Two landmark labour legislations were enacted in the early 1950s: the 1951 National Minimum Wage Law and the 1953 Industrial Peace Act or the Magna Carta of Labour, which provided for a legal framework for the system of free collective bargaining. Like in the 1930s, both legislations were part of a package of labour and economic reforms put together by the government in response to the economic crisis and the serious social unrest that affected the country in the second half of the 1940s.

The intensity of the economic crisis was reflected in the rapid deterioration of the country's balance of payments, which, in turn, was traceable to the reimposition in the post-war period of the pre-war free trade arrangement between the Philippines and the United States. The immediate effect of this trade imposition was the swamping of the Philippine market with duty-free non-essential American commodities. Merchandise imports in 1947 and 1948 exceeded \$500 million annually or nearly four times the foreign trade disbursements for any pre-war year, exerting pressure on the balance of payments. By 1949, the international reserves, which had fallen to \$420 million in 1948, plunged even deeper to a dangerous level of \$260 million, causing in turn a massive speculative outflow of capital, while the accumulated balance of payments deficit totaled \$2,067 million with the United States alone [Central Bank of the Philippines, 1974].

This balance of payments crisis fanned inflation and increased unemployment, thus directly threatening the economic security of the majority of workers. Post-war inflation caused prices of goods to go up to almost 8 times the pre-war level, vastly eroding the workers' purchasing power [Rondain, 1961, p. 3]. Unemployment reached more than 15 per cent of the 7.4 million Filipinos available for work [Jenkins, 1954, p. 124].

The monetary crisis was part of the bigger politico-economic crisis gripping the country. Post-war reconstruction of commercial and industrial establishments was slow and halting. Political uncertainties also ruled the day as charges of electoral fraud and political terrorism were hurled during the 1946 presidential elections, the 1947 plebiscite to amend the Constitution and the 1949 elections. In the countryside, big landowners maintained their own private armies, which were virtually in a state of war against the guerilla forces of the Communist People's Liberation Army or the *Hukbong Mapagpalaya ng Bayan* (HMB). By 1950, the HMB was already

knocking at the gates of Manila.⁵

The labour dimension of the crisis

The politico-economic crisis of the late 1940s had a labour dimension, which was reflected in the militant strike activities of the Communist-led Congress of Labour Organizations (CLO).

Before it was outlawed in 1951, the CLO was practically the only national labour confederation in the country, uniting under its fold some 78 unions with more than 100,000 members. On top of this, the 70,000 strong Philippine Workers' Federation (PWF) based in the Visayas was firmly affiliated with the CLO, its chairman, Jose Nava, being one of the organizers of the CLO [Levinson, 1957, p. 49]. Throughout the second half of the 1940s, the CLO frightened the government and industry leaders with the numerous strikes it launched in both the public and private corporations. The wave of strikes greatly alarmed and irritated the then President Manuel Roxas, who was quoted as saying: "The strikes are creating abroad an unfavourable impression of our country" [Levinson, 1957, pp. 51-52].

The Bell Mission and the government response to the labour unrest

The government response to the labour unrest initially took the form of military harassment. Then it adopted an iron-fist policy, causing a number of CLO leaders to go underground and join the Communist guerillas. Eventually, in early 1951, the government outlawed the CLO. This campaign of repression against the labour militants was complemented in the early 1950s with a programme of labour reforms, most of which were inspired by the recommendations from the report of the US Economic Survey Mission for the Philippines. The mission recommended, among others, the establishment of minimum wages and the encouragement of collective bargaining in place of reliance on compulsory arbitration or the Court of Industrial Relations [Bell, 1950, pp. 95-96].

Through steady American pressure on Philippine legislators, the mission's labour recommendations finally materialized in the form of the Minimum Wage Act of 1951 (R.A. No. 602), and the Industrial Peace Act of 1953 (R.A. No. 875), which was quickly dubbed as the "Magna Carta

⁵ An excellent account of the politics of the immediate post-war period is given by Constantino et al. [1978], ch. 7-8. See also Abaya [1970].

of Labour". The latter was drafted with the technical assistance of the United States Mutual Security Agency (MSA) labour division in Manila [Wurfel, 1959, pp. 593-595].

R.A. 875 was patterned after the "New Deal" National Labour Relations (Wagner) Act of 1935, which was later amended by the Labour-Management Relations (Taft-Hartley) Act of 1947. The twin measures, a reaction to the wave of strikes that swept America during the Great Depression, made collective bargaining between labour and management mandatory. The Taft-Hartley Act outlawed the "closed shop" and the "secondary boycott". It called for a 60-day cooling-off period before a union could go on strike.⁶ The promulgation of R.A. No. 875 is considered the beginning of the shift of the Philippine trade union movement from political to economic unionism. The adoption of the American-type collective bargaining process fosters economism because labour issues are now localized at the plant level. In the words of a journalist-labour activist who would later become Secretary of Labour [Ople, 1958, p. 7]:

The suppression of the CLO cleared the way for a new phase in the Philippine labour movement that continues up to the present time. This is one of concentration in the function of unions as bargaining agents for their membership, more or less strictly on the American model. Political activity has leaped into a purely secondary — even indifferent — place in the scale of priorities of organized labour.

The politics of minimum wage legislation

The enactment of the national minimum wage law (MWL) was not an easy one. The MWL was strongly resisted by the Philippine Congress. Frank Golay observed that "it was largely due to United States insistence upon such legislation that Republic Act No. 602 of April 6, 1951, was enacted" [Golay, 1961, p. 394]. Like the other recommendations of the Bell Mission, the minimum wage measure was certified by President Elpidio Quirino to Congress in compliance with the November 1950 Quirino-Foster Agreement, which specified "the nature and form of the assistance and cooperation which the US government would have to extend to the Philippine government to assist the latter in the solution of age-old social and economic problems gravely aggravated by the last war, and to bring about a new Philippine era of progress and plenty" [Villegas, 1988, pp. 42-43].

The MWL was drafted with the assistance of Harry C. Kantor of the

⁶ For further details, see Brown and Millis [1950], and Rothenberg [1949].

US Department of Labour, who was detailed with the office of the Philippine Secretary of Labour. A special committee created by Quirino recommended P4.00 as minimum wage for agricultural workers and P5.00 for non-agricultural workers. These rates were P1.00 lower than those recommended for both types of workers (P5.00 for agricultural and P6.00 for non-agricultural) by Amado Hernandez, the CLO chairman and lone labour representative in the committee [ibid., pp. 43-44]. Congress, however, further reduced the rates and eventually settled on the following rates: P4.00 daily for non-agricultural workers in Manila; P3.00 daily for non-agricultural workers outside Manila (but to be increased to P4.00 daily one year after); and P1.75 daily for agricultural workers upon implementation of the law, to be increased to P2.50 daily two years after.

The enacted rates were lower than those the Bell Mission had envisioned and much lower than organized labour was asking. Despite this, a number of legislators kept opposing the law on the ground that it was contributing to unemployment. Hence, they filed a score of bills between 1952 and 1955 aimed at either reducing the daily rates or weakening their enforcement [Golay, 1961, p. 394]. To resolve the continuing debates on the minimum wage, President Ramon Magsaysay created in 1954 a Survey Committee on the Minimum Wage Law composed of distinguished economists and lawyers. After extensive hearings, the Committee argued on the need to maintain the law and wrote that reducing wages does not necessarily lead to higher employment, stressing that the "problem is not solved by reducing wages, but by increasing the rate of capital formation, i.e. the opening of new industries."⁷ After this, the Congressional agitation against the law fizzled out.

The adoption of ISI measures

The enactment of the MWL and other protective labour laws in the first half of the 1950s coincided with the accelerated implementation of the import-substituting industrial (ISI) development strategy through import and foreign exchange controls.

To check the massive foreign exchange outflow, Congress enacted on 15 July 1948 the Republic Act No. 330 or the Import Control Act, which authorized the President "to establish a system of import control by regulating imports of non-essential and luxury articles, creating an import control board authorizing the issuance of rules and regulations to carry into

⁷ Survey Committee on the Minimum Wage Law. *Report to the President of the Philippines*, 1955. Cited in Golay [1961], p. 396.

effect such control". With the enactment of the law, the President issued in 1949 a series of executive orders restricting the importation of non-essential and luxury goods and prescribing import quotas for a number of commodities [Central Bank of the Philippines, 1950, pp. 44-48].

With the massive capital flight towards the end of 1949, the newly-established Central Bank was forced to intervene drastically in the economy by supplementing the import controls with foreign exchange control measures. This was probably the reason why the Bell Mission, which was ambivalent on the issue of controls and conscious of their repercussions on the foreign exchange remittances of American companies, grudgingly accepted the need for controls, citing their role in the economy "as a safety measure" [Bell, 1950, p. 4].

However, under the leadership of Central Bank Governor Miguel Cuaderno, the programme of controls was used not only to check the foreign exchange haemorrhage but also as a deliberate programme of promoting ISI industries. In his memoirs, Cuaderno recalled that as early as 1946, he told newly-elected President Manuel Roxas that "the free trade arrangement between the Philippines and the United States, which provided for the unrestricted duty free entry into the Philippines of goods from the United States, and of the restricted entry into the United States of sugar and other Philippine exports, was another great deterrent to the industrialization of the Philippines" [Cuaderno, 1964, pp. 2-3].

Clearly, like the labour reform package of the 1950s, the import and foreign exchange controls and ISI were introduced not due to the simplistic wishes of a national elite taking advantage of protectionist measures but as concrete, even desperate, responses of a beleaguered government to a very serious politico-economic crisis obtaining in the country in the late 1940s. Without these labour and economic reforms, drawn up with American assistance, the crisis might have deepened in the 1950s.

IV. The economy and protective labour institutions through the decades

1. The lesson of the 1950s: Labour welfarism can go hand in hand with industrial expansion

One major lesson that can be derived from the experience of the 1950s was that labour welfarism can go hand in hand with industrial and employment expansion.

It will be recalled that the introduction of the minimum wage law and other protective labour legislation was strongly resisted in the Philippine

Table 1. Real daily wage rates in industry and agriculture, 1950-60 (pesos)

Year	Industry	Agriculture
1950	n.a.	2.05
1951	3.96	1.95
1952	4.47	2.28
1953	4.82	2.59
1954	4.96	2.73
1955	5.18	2.75
1956	5.12	2.38
1957	4.97	2.39
1958	4.81	2.37
1959	4.94	2.33
1960	4.73	2.28

Source: Central Bank of the Philippines.

Congress, whose members were part of the economic elite. And yet, records show that the average real wage in non-agricultural employment for the decade of the 1950s was in fact higher than the P4.00 minimum wage set in 1951 (Table 1). In the case of agricultural workers, the average real wage was higher than the original P1.75 but lower than the 1953 P2.50 minimum wage rate except for the years 1953-55.

The higher real wages in industry were clear indications of the dynamism of the ISI in the 1950s. Moreover, it was also clear that the higher wages and other additional labour costs brought about by the operation of the social security system and the promotion of free collective bargaining did not prevent the ISI industries from expanding and hiring more workers.

The economy grew continuously throughout the 1950s, with the net domestic product in 1959 double that of 1949 in real terms. In the period 1949-55, manufacturing registered an average annual growth rate of 13.69 per cent, the highest in the country's history. Consequently, the composition of the economy changed. While agriculture as a sector expanded in absolute terms, its percentage share in the overall economic pie was somewhat reduced. This is also vividly reflected in the statistics on labour force distribution (Table 2). In 1948, the share of agriculture in the labour force was 71.5 per cent; in 1961, this was reduced to 60.5 per cent. On the other hand, manufacturing, which accounted for a mere 6.6 per cent in 1948, recorded a share of 11.5 per cent in 1961.

Table 2. Labour force distribution by industry, 1948-61 (per cent)

Industry	1948	1952	1955	1958	1961
Agriculture	71.5	72.0	72.5	62.8	60.5
Construction	1.9	2.0	1.9	2.1	2.8
Government	3.6	4.7	3.6	5.6	5.9
Mining	0.3	0.6	0.4	0.2	0.3
Manufacturing	6.6	6.7	6.7	11.4	11.5
Trade	4.9	5.3	5.0	9.1	9.7
Transport and communications	2.0	2.0	2.0	2.8	3.1
Other services	9.2	6.6	7.9	6.0	6.2

Source: Valdepenas [1970], table 2.9

Another significant development was the remarkable decline of unemployment from a record high of 18.2 per cent in 1952 to only 6.3 per cent in 1958 and 7.2 per cent in 1961 despite the steady growth of the labour force [Valdepenas and Bautista, 1977].

Per capita GNP also rose throughout the decade, from P5586 in 1950 to P7774 in 1959 (constant 1985 prices). This occurred even though the population grew by about 35 per cent in the 1950-1960 period (Table 3).

In general, therefore, the fixing of the minimum wage at P4.00 daily for non-agricultural workers and the promulgation of other protective labour legislation did not serve as a deterrent to the expansion of industry. Moreover, despite the rapid growth of the population and the labour force, the double-digit unemployment figures of the early 1950s was reduced to a single digit by the end of the 1950s. Obviously, an expanding labour force with a relatively high or steady purchasing power is in itself a source of continuous growth for an industry oriented to the domestic market.

A modern industrial base and the economic and labour institutions

A major consequence of the ISI in the 1950s was the development of a modern industrial sector, along with the various economic and labour institutions that accompany such development. An early World Bank report on the Philippines sums it up as follows:

The major structural change since the war has been the growth of domestic manufacturing. Organized manufacturing (5 workers and over), which was limited to processing of agricultural products before the war, expanded more than 10 per cent per year during the 1950s. By 1960, it had become a significant segment of

**Table 3. Population and GNP growth rate/per capita GNP
in constant 1985 prices, 1950-90**

Year	Population ¹ (mid-year estimate)	GNP growth rate ²	Per capita GNP ³
1950	20,274,000	8	5,586
1951		10	5,985
1952		7	6,192
1953		8	6,474
1954		8	6,756
1955	23,568,000	7	6,997
1956		7	7,581
1957		6	7,460
1958		4	7,520
1959		6	7,774
1960 (Feb 15)	27,087,685	1	7,714
1961		6	7,887
1962		5	8,054
1963		7	8,369
1964		3	8,399
1965	31,880,868	5	8,574
1966		4	8,686
1967		5	8,839
1968		5	8,996
1969		5	9,162
1970 (May 6)	36,684,486	3	9,142
1971	37,862,421	6	9,438
1972	39,519,457	6	9,705
1973	39,390,059	10	10,362
1974	40,656,345	4	10,507
1975 (May 1)	42,070,665	5	10,770
1976	43,406,278	8	11,289
1977	44,584,324	6	11,629
1978	45,794,343	5	11,941
1979	47,037,201	6	12,366
1980 (May 1)	49,098,460	5	12,595
1981	49,536,022	3	12,683
1982	51,283,065	3	12,725
1983	52,055,370	1	12,591
1984	53,351,220	-9	11,215
1985	54,668,332	-7	10,171
1986	56,004,130	4	10,342
1987	57,356,042	5	10,612
1988	58,721,307	7	11,109
1989	60,096,988	6	11,466
1990	61,480,180	4	11,619

Source: ¹ NSCB, 1991 Philippine Statistical Yearbook. ^{2,3} NSCB, National Income Accounts.

the economy, accounting for 12.7 per cent of the net domestic product that year. A vigorous entrepreneurial class has emerged and the nucleus of a skilled labour force has been formed... [World Bank, 1962, p. 6].

Frank Golay cited the rise of the Filipino industrial class, with its entrepreneurial values, as one of the four major sources of growth in the post-war period. This emerging industrial class changed the composition of the pre-war national economic elite, which was dominated by the landed aristocracy bred by the free-trade export crop monoculture and the so-called *compradores* who specialized in the import-export and domestic distribution business. The three other sources of growth in Golay's list were: consistency of economic policy, supplement of foreign savings (mainly war damage payments) and development of the internal market in the Philippines [Golay, 1961, pp. 408-414].

What Golay missed in his listing was the role of labour institutions, which helped, on the one hand, to stabilize the industrial relations front, and on the other, to develop a mass market for the ISI industries.

2. *The lesson of the 1960s: An impasse in economic directions leads to stagnation and labour unrest*

The decade of the 1960s was an anaemic decade in contrast to the high-growth decade of the 1950s. The economy registered an average annual GNP growth rate of 4.6 per cent, which pales in comparison to the average 7.1 per cent recorded in the 1950s (Table 3). Manufacturing's average annual growth rate of 5.3 per cent was only half the double-digit average growth rate of the 1950s. The general economic decline was reflected in the gradually rising rate of unemployment and the stagnant state of manufacturing in terms of job generation, with its share in total employment remaining almost constant at a little above 11 per cent.

The decade, especially the second half, was also marked by the almost endless debates on the virtues and weaknesses of the existing ISI strategy vis-à-vis the still undefined labour-intensive export-oriented industrial (EOI) strategy, whose proponents were highly critical of the regime of import and foreign exchange controls established in the early 1950s, and vocal in their advocacy of measures leading to a more open economy, e.g. peso devaluation, foreign investment incentives schemes, etc.

Gerardo Sicat and John Power, the leading EOI theoreticians who enjoyed the support of the newly-established Programme Implementation Agency (PIA) in the Presidential palace, wrote a series of articles in the second half of the 1960s severely criticizing the ISI for causing an industrial structure characterized by the following: inward-looking manufactur-

ing industries, an excessive dependence on imported inputs, an excessive reliance of the economy on a few primary exports owing to the failure of the industrial sector to develop as a source of foreign exchange, over-concentrated regional development in and around Manila, greater inequality of income distribution, the neglect of wage-good industries, slow growth of industrial employment, and technical and economic inefficiency [Sicat and Power, 1971, ch. 5].

In the case of income distribution, Sicat and Power bewailed the supposedly privileged position of the workers in the ISI industries, which tended to perpetuate "income inequality" between the "few who generally have good jobs in the modern sector" and the "many poor Filipino workers who do not" [Sicat and Power, 1971, p. 112].

Accordingly, the ISI by its very nature was seen as unsustainable and the fast growth of the economy under the ISI in the 1950s represented the "easy" or "exuberant" phase of ISI development. In the view of Sicat and Power, the alternative lay in the labour-intensive outward-looking or export-oriented industrial (EOI) strategy.

The position of Sicat and Power was criticized by some of their colleagues in the School of Economics of the University of the Philippines, notably economic historian Amado Castro, himself a former dean of the School, as well as by defenders of "nationalist industrialization" like businessman-economist Alejandro Lichauco and the members of the newly-created Congressional Economic Planning Office (CEPO).

In one of his papers defending the adoption of ISI in the Philippines, Castro explained that the ISI in the Philippines was put in place not as a deliberate policy but more as a consequence of the "defensive reaction" measures undertaken by the government in response to the balance of payments difficulties experienced by the country in the late 1940s. On the notion of ISI businessmen being import-dependent and limited to packaging and assembly operations, Castro argued that, instead of being flogged, they "should be given credit for undertaking what is the cheaper, more natural, more effective sequence of investment for most consumer goods industries — from the final operations backward to more basic steps". He pointed out that the statistics on imports indicated "a shift in the composition of imports from finished consumer goods to capital goods", which meant that "backward integration is in fact taking place now, with domestic raw materials being utilized to a greater extent". With the ISI industries already in place and with the recurrence of the balance of payments crisis, Castro gave two escape routes for the economy: the backward movement, which means "integration of industry, from finishing to more basic operations in production", and the forward movement, which means "exports of

industrial goods" [Castro, 1969].

A policy stalemate

However, what happened in the 1960s in terms of industrial policy-making was a neither-here-nor-there situation. Given the balance of payments deficits, the government was forced to go to the IMF and to acquiesce in IMF-suggested policies of opening up the economy through peso devaluation and the enactment of measures encouraging foreign investments and export-oriented production. The growing IMF clout in policy-making was reinforced by the rise in the bureaucracy of Western-trained economists collectively dubbed the "technocrats". On the other hand, the political clout of the Filipino industrialists, whose interests were sufficiently represented in the old Congress, media and certain agencies of the government, prevented any substantial lowering of protection to local industrialists.

Therefore, what took place in the 1960s was a gradual and piecemeal reorientation of the industrial policy towards export orientation while protection for local industry was provided in new forms. This process started in the early 1960s when the Macapagal administration ended the foreign exchange control programme and allowed the peso to be devalued from the fixed P2 to \$1 rate of the 1950s, initially to a multi-tiered rate system and eventually to a unitary rate of P3.90 to \$1. But at the same time, Macapagal put in place a comprehensive programme of tariff protection to shelter local industrialists from the effects of the phaseout of the various control measures.

Ferdinand Marcos, who took over from Macapagal in 1966, continued the decontrol programme but maintained the tariff protection programme, despite various official pronouncements stressing export promotion and a liberal economic order.

Towards the end of the 1960s, more serious measures were instituted to achieve these economic objectives. A floating rate for the peso was adopted, with the peso initially falling to P6.50 to \$1 in 1970. The Board of Investments was established and three investment and export incentives laws were enacted: Republic Act 5185 or the Investment Incentives Act, which gave various incentives to foreign and domestic investors going into preferred areas such as export-oriented production; Republic Act 5455 or the Foreign Business Regulation Act of 1970, which removed the restrictions on the repatriation of profits and other investment disincentives, and Republic Act 6135 or the Export Incentives Act, which gave additional incentives to export producers.

Overall, however, the decontrol programme resulted in a neither-here-nor-there situation. The level of new foreign investments was negligible and there was hardly any perceptible trend in the reorientation of actual industrial production towards the export market. On the other hand, the ISI structure remained intact as it acquired a new shelter in the form of tariff protection. Robert Baldwin, who did a survey of industry and policy changes in the 1960s, summed up the situation as follows:

President Macapagal took special care in his 1962 Address on the State of the Nation to inform the business community that the Government, in removing controls, wished merely to substitute tariff protection in place of the protection provided by the control system. Protection of domestic industry was in itself regarded as a legitimate and desirable goal. Consequently, the fact that the decontrol effort did not significantly reduce the size of the import-substitution sector built up during the period of quantitative controls is not surprising. Actually what must have surprised government officials was the extent of the economic difficulties that the import-substitution sector did face. They did not seem to appreciate that, by providing the export sector with more favourable trading terms and increasing the import costs of raw materials and capital goods, resources would be pulled out of the new industrial sector even if the level of protection on final consumptions goods was maintained. In a sense, the decontrol episode was partly successful in changing the production incentives built into the economy during the 1950's despite the intentions of the Government. *But the resulting situation was not very satisfactory from an economic standpoint, since a significant liberalization effort that could have established the basis for a new type of export-oriented growth was not achieved and the import-substituting manufacturing sector was left in a relatively stagnant state* [Baldwin, 1975, p. 77].

In short, some kind of a stalemate in economic directions took place in the 1960s, which proved harmful to the future growth of the economy. This stalemate was due partly to the following:

(a) *The rise of major economic actors with clashing interests*

The ISI of the 1950s produced a native industrializing elite with stakes in the ISI system of protection and whose interests differed with the other part of the native economic elite, whose wealth was tied with the colonial export-oriented agro-mineral production (sugar, coconut, gold, etc.). The agro-mineral exporters chafed over the so-called "overvaluation" of the peso and the Central Bank's allocation of dollars to ISI industrialists to cover the latter's imports.

Another economic group which railed against the ISI in the 1950s was the American Chamber of Commerce, whose members found it difficult to remit locally-generated profits because of the Central Bank's restrictions on foreign exchange uses.

(b) *Debates over policy directions*

At the theoretical level, the tension between the ISI advocates and the free marketeers was reflected in the decline in influence of the National Economic Council (NEC), which coordinated with the Central Bank the implementation of the programme of controls in the 1950s. The NEC's decline was accompanied by the rise of two economic planning bodies advocating divergent paths of economic development: the Presidential Economic Staff (PES) attached to the Office of the President, and the Congressional Economic Planning Office (CEPO), a creation of the Philippine Congress [Sicat and Power, 1971, pp. 73-75].

The rising group of outward-looking "technocrats" like Gerardo Sicat and Armand Fabella managed to control the powerful PES. On the other hand, CEPO was manned by the "nationalist" economists like Alejandro Lichauco and Emmanuel Yap who were firm advocates of fuller industrialization of the country through greater protection to local industrialists.

CEPO's "Magna Carta of Social Justice and Economic Freedom", passed as Joint Resolution No. 2 of Congress, called for the transformation of the "agricultural economy" by fully industrializing the country "through the establishment of basic industries, particularly those that will utilize indigenous raw materials". The Magna Carta advocated not only the retention of tariff protection for Filipino industrialists but also the reimposition of import and foreign exchange controls.⁸

When martial law was declared in September 1972, some of the authors of the Magna Carta were detained, while those in the PES became more powerful in the bureaucracy with the creation of the National Economic Development Authority (NEDA), which absorbed the ineffectual NEC. With the abolition of Congress, CEPO simply faded away.

(c) *Ambivalence of the executive branch*

In the above clash over economic policy directions, both the Macapagal and Marcos (pre-martial law) administrations appeared ambivalent and indecisive. At times, they tried to reconcile the opposing interests and divergent policy proposals through a difficult political and economic tight-rope walking. Thus, in the early 1960s, when the Macapagal administration accepted the IMF advice to devalue the peso and lift import and foreign exchange controls, it also set up at the same time high tariff walls in response to the complaints of the local industrialists. Marcos more or less followed the same posture as Macapagal.

⁸ Laurel [1971], pp. 122-123. Laurel was the Speaker of the House and the main sponsor of the Magna Carta.

One sad consequence of this situation was that the country lost some tempo in the economic acceleration game as it muddled through the 1960s. In a way, the country's growth decelerated in the 1960s not because the "easy phase" of import substitution was exhausted nor because the country did not become more outward-looking. The growth process weakened primarily because there was a great deal of confusion on economic directions, which resulted in what Baldwin had pointed out earlier: on the one hand, a crisis of ISI, and on the other, a failure of EOI to develop roots.

Revival of labour militance

In the meantime, labour unrest, which virtually disappeared in the 1950s after the dismantling of the CLO, staged a comeback. Falling real wages and the general slowdown in the economy contributed to the unrest (see Tables 3, 4, 5 and 6) especially after the 1962 and 1970 peso devaluations. Most of the strikes occurred in manufacturing, which was badly hit by the peso devaluations.

3. *The lesson of the 1970s and 1980s: Squeezing labour can produce growth but only in the short term*

In the mid-1980s, Harry T. Oshima, a visiting economist in the Philippines, and his two Filipino partners stirred the economic circles in the Philippines when they presented a paper analysing an unusual phenomenon in the country during the 1970s: declining real wages amid rising national incomes per worker [Oshima, de Borja and Paz, 1986]. From 1970 to 1979, the national income per worker in 1972 prices increased by about 23 per cent or roughly 2 per cent a year, while real wages for the same period went down by 38 per cent for the skilled workers and 46 per cent for the unskilled workers (Tables 5 and 7).

Oshima and his colleagues concentrated their analysis on labour supply and labour demand. On the supply side, they concluded that the rapid growth of the labour force (3.4 per cent a year), the rising levels of underemployment (from 13.6 per cent in 1971 to 20.6 per cent in 1980), the expansion of the services sector where the informal sector is larger, and the failure of agriculture to absorb more workers, thus causing higher rates of rural-to-urban migration, had all combined to depress real wages in the labour market. On the demand side, they believed that the ISI strategy with its limited employment potential was "extended up to the 1970s", while the export promotion policies established in the decade "favoured the finishing stages of production" which have minimal "forward linkages" and "backward linkages" as indicated by the great

Table 4. Number of strike/lockout notices filed, actual strikes/lockouts, workers involved and man-days lost by year (1950-89)

Year	Strikes/ lockout notices filed	Actual strikes				
		Total	With notice	Without notice	Workers involved	Man-days lost(000s)
1950	a	42	a	a	8,111	a
1951	a	28	a	a	4,943	a
1952	a	14	a	a	2,293	a
1953	a	13	a	a	9,683	a
1954	a	53	a	a	18,417	a
1955	a	47	a	a	14,574	591
1956	a	77	a	a	21,165	744
1957 (Jan.- June)	a	29	a	a	8,490	75
1958-62	a	a	a	a	a	a
1963	319	88	a	a	47,520	455
1964	445	101	a	a	65,624	842
1965	527	109	a	a	55,229	812
1966	612	108	a	a	61,496	756
1967	561	88	a	a	47,524	697
1968	569	121	a	a	46,445	584
1969	621	122	a	a	62,803	1,067
1970	819	104	a	a	36,852	995
1971	979	157	a	a	62,138	1,429
1972 (Jan.-Sep.)	1,043	69	a	a	33,396	1,004
1973-74	0	0	0	0	0	0
1975 (Dec.)	13	5	1	4	1,760	4
1976	305	86	40	46	70,929	214
1977	146	33	23	10	30,183	34
1978	295	53	24	296	33,731	156
1979	316	48	24	24	16,728	174
1980	362	62	31	31	20,902	105
1981	784	260	155	105	98,585	796
1982	743	158	119	39	53,824	1,670
1983	705	155	113	42	33,638	394
1984	960	282	239	43	65,306	1,908
1985	1,175	371	309	62	111,265	2,458
1986	1,613	581	459	122	169,479	3,638
1987	1,715	436	365	71	89,574	1,908
1988	1,428	267	222	45	75,848	1,525
1989	1,518	197	169	28	56,541	955

Notes: a. No data available. Data for 1975-76 exclude reports from MOLE Regional Offices.

Sources: Bureau of Labour and Employment Statistics and National Conciliation and Mediation Board, Department of Labour and Employment.

Table 5. Wage rate index of labourers in industrial establishments in Manila and Suburbs, 1960-80 (1972 = 100)

Period	Money wage rates		Real wage rates	
	Skilled labourers	Unskilled labourers	Skilled labourers	Unskilled labourers
	(1)	(2)	(3)	(4)
1960	62.7	50.7	133.4	107.9
1961	62.6	51.9	131.2	108.8
1962	63.4	53.5	125.5	105.9
1963	65.2	56.3	122.3	105.6
1964	66.4	56.9	115.1	98.6
1965	68.2	60.8	115.2	102.7
1966	71.7	65.4	114.9	104.8
1967	75.0	68.4	113.1	103.2
1968	81.1	76.1	119.4	112.1
1969	85.3	79.7	123.3	115.2
1970	90.6	88.4	114.4	111.6
1971	95.3	94.4	105.1	104.1
1972	100.0	100.0	100.0	100.0
1973	105.3	102.6	92.4	90.0
1974	115.1	110.8	75.6	72.6
1975	119.7	120.1	72.7	72.9
1976	124.4	126.2	71.2	72.3
1977	137.5	132.9	72.9	70.4
1978	154.4	138.4	76.1	68.4
1979	170.1	145.8	70.8	60.4
1980	180.8	151.1	63.7	53.3

Source: Central Bank. The Central Bank used to conduct a survey among skilled and non-skilled workers in selected enterprises in Manila and suburbs. This survey was discontinued in the 1980s.

dependence of the export industries on imported materials. They also postulated that the expansion of the national product “may” be traced to the protected “large-scale enterprises”, which are capital-intensive and have limited employment creation capacity.

Indeed, the supply-side and demand-side factors cited above could have reduced the overall level of employment and real wages in the labour market. However, the analysis glossed over or missed out on two important developments in the 1970s: the tremendous expansion of agricultural production due to the various agricultural modernization programmes and the “regimentation” of labour under the martial-law regime. These two developments could explain why despite the presence of the same supply/demand factors in the decade of the 1960s, the decline in real wages in the 1960s was not as sharp as in the 1970s.

Table 6. Legislated daily nominal and real minimum wage, National Capital Region, non-agricultural, adjusted according to Consumer Price Index (CPI) (1978 = 100), 1950-89

Year	Nominal wage	CPI	Real wage	Percentage change
1951	4.00	23.61	16.94	—
1952	4.00	22.08	18.12	6.92
1953	4.00	21.89	18.79	3.70
1954	4.00	21.00	19.05	1.41
1955	4.00	20.80	19.23	0.95
1956	4.00	21.39	18.70	(2.76)
1957	4.00	21.73	18.40	(1.59)
1958	4.00	22.47	17.80	(3.29)
1959	4.00	22.23	18.00	1.11
1960	4.00	23.26	17.19	(4.45)
1961	4.00	23.56	16.98	(1.26)
1962	4.00	24.89	16.07	(5.35)
1963	4.00	26.32	15.20	(5.43)
1964	4.00	28.49	14.04	(7.61)
1965	6.00	29.18	20.56	46.45
1966	6.00	30.75	19.51	(5.13)
1967	6.00	32.73	18.33	(6.02)
1968	6.00	33.51	17.90	(2.35)
1969	6.00	34.15	17.57	(1.88)
1970	8.00	38.94	20.55	16.96
1971	8.00	44.80	17.86	(13.09)
1972	8.00	49.29	16.23	(9.11)
1973	8.00	57.00	14.04	(13.49)
1974	8.82	76.10	11.59	(17.45)
1975	10.65	82.30	12.94	11.65
1976	12.09	86.70	13.94	7.73
1977	14.40	93.50	15.40	10.47
1978	15.74	100.00	15.74	2.21
1979	20.48	117.20	17.47	11.02
1980	27.39	138.40	19.79	13.25
1981	31.37	156.80	20.01	1.09
1982	31.82	172.60	18.44	(7.85)
1983	34.22	189.60	18.05	(2.10)
1984	48.47	285.40	16.98	(5.90)
1985	57.08	352.80	16.18	(4.73)
1986	57.08	353.30	16.20	0.14
1987	58.65	395.54	14.77	(8.83)
1988	69.33	435.30	15.94	7.88
1989	82.88	477.18	17.30	8.58

Source: Business World Research Files, in *Business World*, 30 October 1991.

Table 7. Growth of national income and per capita GDP, 1969-79 (1972 prices)

Year	National income (Bn P)	Per employed person	Growth rates (percentage)	Per capita GDP	Growth rates (percentage)
1969	40.5	3,605	—	1,133	—
1970	41.6	3,534	-2.0	1,134	0.1
1971	43.7	3,473	1.7	1,154	1.8
1972	45.8	3,465	-0.2	1,177	2.0
1973	49.8	3,755	8.4	1,245	5.8
1974	52.3	3,783	0.7	1,272	2.2
1975	55.1	3,796	0.3	1,310	3.0
1976	59.1	4,151	9.4	1,362	4.0
1977	63.2	4,409	6.2	1,418	4.1
1978	66.9	4,155	-5.8	1,461	3.0
1979	70.7	4,346	4.6	1,503	2.9

Source: Oshima, Harry T. et al. [1986], Appendix, Table 1.

Expansion of agriculture in the 1970s

From 1971 to 1980, national agricultural production went up from 15.6 million metric tons (worth P9.2 billion) to 29.5 million metric tons (worth P37.6 billion) [Philippines, National Economic Development Authority, 1981, pp. 52-53]. From being a chronic rice importer, the Philippines achieved self-sufficiency in cereal production in 1977 and became a rice exporter in the years that followed. It was also in the 1970s that the Philippines emerged as the banana king of Asia [Ofreneo, 1980, Parts III and IV].

Behind this dramatic jump in agricultural production was the massive modernization programme launched by the Marcos regime, which declared the 1970s a decade of "countryside development". In the rice and corn areas, this modernization took the following forms: nationwide propagation of the new Green Revolution technology through a supervised cheap credit programme (dubbed *Masagana 99* and *Maisan 77*), massive development of irrigation and other infrastructures, outlawing of sharecropping through the leasehold conversion programme and the initiation of Operation Land Transfer (OLT), and launching of other support services such as the grains price stabilization programme and development of rural cooperatives. In the non-rice-and-corn areas, modernization came mainly through the propagation of agribusiness interests, which led to the expansion of existing pineapple and other plantations, development of hundreds of new plantations and corporate farms devoted to palm oil and other new export crops and the integration of small farmers into the operations of agribusiness

interests through contract growing arrangements (e.g. banana, sorghum, livestock, etc.).

In their paper, Oshima and colleagues [1986] contended that statistical data indicate that agriculture's traditional role as the lead absorber of labour weakened, implying that some decline in agricultural productivity occurred in the 1970s. The truth, however, was that agricultural production and productivity, with the notable exception of sugar, increased dramatically, as indicated above, while the rate of labour absorption in agriculture did not grow as fast. This means agricultural modernization, especially in the agrobusiness-related areas, did not lead to increased labour absorption because the technology used was either labour-displacing or not labour-intensive.

Moreover, a large number of small farmers, settlers and tribal minorities were displaced from the land either through outright landgrabbing by powerful interests backed by the martial-law government (hence the phenomenal rise of rural insurgency, particularly in tribal areas) or through the brutal process of competition where the small, indebted and marginal farmers were swallowed by the big operators [Ofreneo, 1981]. The predictable outcome of such processes was the increased number of landless rural workers or the so-called reserve army of labour. Thus, while increased agricultural production and productivity helped boost, statistically speaking, national income per worker, landlessness and underemployment arising from agricultural modernization tended to depress real wages of those in the labour market.

The "regimentation" of labour and the cheap labour policy under martial law

Perhaps the most glaring omission in the analysis by Oshima and colleagues was their failure to relate the declining real wages to the fact that the 1970s was the martial-law decade. With its martial powers, the government curtailed a number of labour rights which, in turn, weakened labour's bargaining power.

Organized labour was effectively silenced during the first few years of martial law. Militant labour and peasant leaders were jailed, while their organizations were outlawed. General Order No. 5, issued on day one of martial law itself, banned all forms of group actions and prohibited workers from exercising their right to strike. An ad hoc National Labour Relations Commission (NLRC) was set up to strengthen government intervention in dispute settlement through compulsory arbitration. The general policy thrust in dispute settlement was the promotion of free collective

bargaining within the framework of the government-run compulsory arbitration system. Later, with the promulgation of the Labour Code, a regular NLRC was institutionalized. The Labour Code also barred from joining any labour organization for purposes of collective bargaining the following types of workers: supervisory employees, whose unions in the pre-martial-law period provided some intellectual leadership to the labour movement; security guards; employees of all religious, charitable, medical or educational institutions "not operating for profit"; and government employees, including the unionized workers of government-owned-and-controlled corporations (GOCCs), who were all placed under the discipline of the Civil Service Commission [King, 1982].

At the same time, the Marcos regime tried to develop its labour base by helping organize a pro-government labour centre, the Trade Union Congress of the Philippines (TUCP), whose leaders were appointed to tripartite bodies such as the Social Security System, the National Labour Relations Court, and the Overseas Employment Development Board, etc. It also officially adopted "tripartism" as a state policy in industrial relations. As a result of the repressive measures by the government, there were no recorded strikes in 1973 and 1974 (Table 4). Coincidentally, it was in these years that real wages really took a plunge — by about 24.4 per cent for the skilled workers and 27.4 per cent for the unskilled compared to the 1972 level of wages (Table 5).

According to Perfecto Fernandez, the government put in place "institutions of Wage Control, for their object is to control the rise of wages, i.e. to keep them at cheap levels" in support of what he called the "Open Economy". He classified the "institutions of Wage Control" into two groups: (i) those that limit the wages and benefits "workers are entitled by law"; and (ii) those that limit the "wage increases and other benefits that workers could obtain by collective agreements" [Fernandez, 1982, p. 8].

Included in the first cluster of wage control institutions were the calibrated measures made by the government to control minimum wage increases "by limiting increases of wages both in the public and private sectors to small amounts spread over substantial periods of time", which overall resulted in a "substantial wage freeze". The government was able to do this calibration when it assumed the role of a decree maker even in the area of wages, where from time to time, during periods of high inflation, it would decree a minimum wage increase or a cost of living allowance (COLA) but only at a level much lower than the inflation rate. The government, of course, issued many of the wage and COLA decrees after going through the motion of calling for a "tripartite conference" for this purpose. But as one labour scholar put it, the weakness of the labour movement and

the lack of unity among the labour leaders "provided opportunities for the employer and government representatives to exploit and achieve consensus and to mitigate the wage increases" [Macaraya, 1988, p. 24].

In real terms, the legislated wages in the 1970s were much lower than the original 1970 wage rate (Table 6). This declining real minimum wage trend was compounded by two other problems: there were numerous establishments exempted from the decrees and compliance with the decrees was low. The decrees exempted not only the small cottage enterprises but also "distressed industries" and "distressed employers". As to compliance, the Ministry of Labour itself reported that the number of workers benefiting was only 1,314,681 in the year 1977. This number is small compared to the estimated 7 million wage workers for that year [Ofreneo, 1981, p. 131].

As to the institution of collective bargaining, this was badly emasculated by the strike ban, the issuance of injunctions to prevent or stop strikes and government takeover of disputes through compulsory arbitration. In other words, collective bargaining was so regulated and labour's power was so weakened that labour's position was reduced to one of "collective begging" [Fernandez, 1982, pp. 10-17].

Thus, ironically, the government-initiated labour institutions such as minimum wage fixing and collective bargaining, which helped organized labour achieve a certain degree of economic success in the 1950s, were transformed under martial law into institutions for lowering the cost of labour in the formal sector of the economy in the name of the EOI strategy. The Wage Commission itself, in a 1979 report, unabashedly admitted that the government was following a policy of "wage restraint" in accordance with the official "development strategy" [Philippines, Wage Commission, 1979, p. 1]. The minimum wage of the martial-law years became the leader in the downward march of real wages.

The turbulent labour relations in the 1980s

Predictably, by the early 1980s, Filipino workers, especially those who were organized, were quite restless. The collective anger of organized workers bottled up by the restrictive martial law regime exploded as the economy went into a recession in 1980-83 and hit rock bottom in 1983-85. By then, both radical and moderate unions were openly denouncing the Marcos regime and conducting strikes and mass actions. The "partial" strike ban instituted in 1976 was widely ignored by the various labour groups. With the nominal lifting of martial law in 1981, the government also "lifted" the strike ban but substituted new laws strictly regulating the

conduct of strikes.⁹ These laws were likewise widely ignored by striking workers, especially during 1983-85.

A major development on the labour front was the rapid rise of the *Kilusang Mayo Uno (KMU)*, which espouses "genuine trade unionism" or "GTU". KMU forged ties with the Philippine affiliates of the Prague-based World Federation of Trade Unions (WFTU). Alarmed by the growing strength and influence of these radical unions, the Marcos regime detained some of their leaders in 1982 — an act which failed to dampen the growth of these unions.

After the assassination of Senator Benigno S. Aquino (August 1983) and the explosion of the debt crisis (October 1983), labour activism rose sharply as did the protest movement involving many sectors. Workers' strikes, marches and rallies in protest against the deteriorating economic situation and the unpopular Marcos regime became a common phenomenon. The number of strikes surged to 260 in 1981, the year martial law was lifted, declined in 1982-83, and then shot up again from 1984 onward (Table 4). In the 1980s, the Philippines became the strike capital of Asia.

SAP, politico-economic crisis and labour unrest

Like the country's experience in the 1930s and 1940s, the industrial unrest in the 1980s was part of the larger politico-economic crisis that gripped the nation. Popular resentment against the authoritarian regime of President Marcos reached a high point after the assassination of Mr. Aquino and the sharp devaluation of the peso in October, when the IMF subjected the Philippines to a series of 90-day debt moratoria because of the inability of the government to service the swollen \$24-billion foreign debt. Labour unrest, debt crisis, political uncertainties and capital flight all combined to deepen the general politico-economic crisis.

However, another major factor in fanning labour unrest should be underscored here: the structural adjustment programme (SAP) initiated in the first half of the 1980s. The SAP was based on the criticisms by the World Bank and other economists that the Philippine industrial structure, despite the official EOI policies in the 1970s, remained highly protectionist and inward-looking, with the EOI industries constituting only an enclave in the economy.

⁹ Two repressive laws were enacted: Batas Pambansa 130 and 227, which provided for strict guidelines on the conduct of strikes and picketing. In particular, the twin laws allowed for the "free ingress and egress" of goods and personnel during strikes and required striking workers to maintain "moving pickets".

After some resistance, the Marcos regime accepted the SAP package, sweetened with a \$200-million World Bank Structural Adjustment Loan (SAL). The adjustment measures included the downward restructuring of the tariff system and the liberalization of imports; new export-enhancing schemes; restructuring of the investment incentives system to facilitate investment application processing and encourage export ventures; rationalization of certain industries such as textiles, cement, electronics, etc.; financial reforms such as the "flexible" exchange rate for the peso, interest rate deregulation and "unibanking" reforms in the banking industry; fiscal reforms such as better mobilization of domestic resources through tax and non-tax measures; dismantling of government monopolies and privatization of some government corporations; and continuing diversification of energy sources [Ofreneo and Habana, 1987, ch. 2].

But the timing of the SAP was disastrous.¹⁰ It coincided with the recession in 1980-83 and the depression in 1983-85. Given the anti-protectionist nature of the SAP, it was only natural that the SAP measures would have a negative impact on industries and firms catering to the domestic market. Also, the SAP was implemented against the backdrop of negative external economic factors, e.g. the new round of global oil price increases, an upsurge in world interest rates and the collapse of prices for the country's leading mineral (gold and copper) and agricultural (sugar and coconut) exports. The SAP was also complemented by the "bitter pills" of austerity — tight monetary restrictions, reduced expenditures, increased taxation, etc. — imposed by the IMF through its stabilization programmes for the Philippines.

Industry went into a tailspin. Manufacturing was hardest hit. Despite the suspension of the import liberalization programme in late 1983 due to dollar scarcity, manufacturing was plagued by a number of formidable problems: the crisis in the letters of credit (foreign creditors shifted to cash-basis transactions because of the uncertainties over the debt crisis), ever-rising interest rates, increased cost of production, and drastically reduced market demand. Thus, while the growth rates for the entire economy progressively shrank, the decline of manufacturing was bigger than in the other sectors of the economy. As shown in Table 8, the share of manufacturing in overall employment went down from 11 per cent in 1980 to 9.7 per cent in 1985.

¹⁰ For a more extended discussion on the SAP and the economic crisis, see Ofreneo and Habana [1987].

Table 8. Number of employed persons by industry (per cent share in total)

Economic activity	1980	1981	1982	1983	1984	1985	1986	1987	1988
Agriculture	51.4	51.2	51.3	51.4	49.6	49.0	50.0	47.8	46.1
Construction	3.6	3.4	3.5	3.6	3.9	3.5	3.1	3.6	4.0
Finance	2.0	1.9	2.2	1.9	1.9	1.7	1.9	1.9	1.8
Manufacturing	11.0	10.4	10.0	9.8	9.8	9.7	9.3	9.9	10.4
Mining	0.6	0.5	0.4	0.5	0.7	0.6	0.7	0.7	0.8
Social/personal services	16.4	17.0	16.8	16.6	16.8	17.2	17.1	17.4	17.9
Trading	10.1	11.2	11.0	11.4	12.4	13.2	13.7	13.7	13.8
Transport/Communications	4.4	4.2	4.4	4.3	4.4	4.7	4.7	4.1	4.5
Utilities	0.4	0.4	0.3	0.4	0.4	0.4	0.3	0.4	0.4

Source: National Statistical Office.

In concrete terms, the decline in manufacturing share in overall employment amid a shrinking economy meant plant closures, shutdowns, and reduced production. The Labour Ministry recorded an average of 65,000 workers being laid off annually in 1980-82; and 82,000 workers yearly in 1983-85. Hardest hit by layoffs was manufacturing, where most of the trade unions' members worked. It accounted for about two thirds of the total number of workers laid off. Within manufacturing, food, textiles and garments registered the highest number of layoffs simply because they are the largest industries.

The crisis in employment affected not only home-oriented industries but also the export-oriented branches. Peso devaluation, while obviously favourable for exports, does not necessarily provide a distinct advantage for export-oriented firms, most of which are import dependent (for raw materials and machinery) and which also have to endure the higher cost of production at home brought about by devaluation, interest rate flotation, etc.

Industrial relations in 1980-85 were naturally turbulent. The retrenchment programmes, reduced working time arrangements, and moratorium on wage increases and new benefits provoked a lot of disputes with the unions and their members. Here too, the most affected industry was manufacturing. Many of the strikes conducted by the unions were over the issue of layoffs.

Cheap labour, an implicit requirement in labour-intensive export firms, also became the main issue in the labour disputes involving export-led firms. The Export Processing Zone in Bataan (BEPZ), reputed to be a strike-free area in the 1970s, saw not only an outburst of individual strikes in individual companies but even the unthinkable — zone-wide strikes. The Food Terminal, Inc. (FTI) complex, the favourite of a number of electronic and garment exporters because of its proximity to Manila International Airport, also became a hotbed of labour unrest.

Labour unrest and labour relations under the Aquino administration

The economic crisis eased somewhat with the rise to power of a new government in February 1986. The economy improved with the return of political normalcy via the so-called "people power" revolution, the price recovery in the world market of the country's major primary export products (gold, copper, sugar and coconut), increased demand for Philippine-sewn garments and Philippine-assembled electronics, and a fall in the price of oil. In addition, the IMF, which was harsh on the Marcos regime in its

twilight years, was lenient on the Aquino administration, which was allowed to engage in massive pump-priming activities in 1986-88.

As to the SAP, the Aquino administration not only continued the SAP but also deepened and broadened its implementation, especially with regard to the import liberalization programme which was reactivated (Marcos suspended the programme in late 1983) with the liberalization of 700 items in 1986, the dismantling of some government-supported monopolies (associated with certain Marcos cronies) and the implementation of the privatization programme. But unlike during the Marcos administration, the implementation of the various SAP measures did not provoke much resistance from the business community (except the import liberalization programme) nor cause much anguish for them. In the first place, the most difficult adjustments had already taken place. As the World Bank put it, "The industry is 'leaner' as a result of the deep recession in 1984-85, which enabled only the strongest firms to survive" [World Bank, 1989, p. 1].

Nonetheless, 1986, the first year of the Aquino administration, saw an unprecedented rise in the number of strikes, partly because of the new democratic space and partly because of the continuing efforts of organized workers to recover eroded incomes. The number of strikes declined to 436 the following year, but this figure is still considerably high compared to 371 strikes in the crisis year of 1985.

In response to business complaints against militant unionism, the Aquino administration took a hardline stance on industrial disputes by fully reviving the harsh features of the strike law (a legacy of the Marcos regime) which penalizes those who participate in an "illegal strike", strictly regulates the conduct of strikes and picketing, and invokes the extraordinary power of the government to enjoin any strike by assuming jurisdiction over the dispute.

At the same time, the government, through the Department of Labour and Employment and the Department of Trade and Industry, launched a "proactive programme" by promoting the organization of labour-management councils (LMCs) in enterprises, encouraging parties to a dispute to submit their cases to voluntary arbiters, and conducting more active mediation-conciliation services. To help institutionalize these "proactive" approaches in labour relations, the government set up the National Conciliation and Mediation Board with its own regional offices.

Because of the improved politico-economic situation and as a result of the above labour relations measures, there has been a downtrend in the number of strikes since 1989. However, labour's obsession with recovering real incomes remained strong. In 1987, 1989, 1990 and 1991, a number of labour mass actions, mainly through the *welgang bayan* or general

strikes, were launched to press the government to adjust the minimum wage. These mass actions bore fruit in the form of the legislated P10-wage increase in 1987 and P25-wage increase in 1989, and Wage Order No. 1 in 1990 and Wage Order No. 2 in 1991 issued by the newly-created Regional Tripartite Wages and Productivity Boards (RTWPBs).

Conclusions

As can be gleaned from Table 6, the various wage decrees and legislations in the 1980s, issued largely in response to the pressures of organized labour, prevented any rapid erosion of the legislated minimum wages. However, the figures also show that the real minimum wage in the 1980s, the decade of militant unionism, did not differ very much from the real minimum wage in the early 1970s, the decade of repressed unionism. This is clearly a sad reflection of the lack of social and economic progress in the country.

The militancy of organized labour in pursuing wage increases in the 1980s was really a reaction to the need to recover incomes lost in the 1970s. But such militancy, taking place against the backdrop of a crisis-ridden economy, tends to contribute further to the political, economic and industrial turbulence. Investors in the 1980s never failed to cite industrial strife as one of the ten leading disincentives to investing in the Philippines. And yet, labour was only trying to regain lost incomes and preserve whatever gains they got in the turbulent 1980s, truly a lost decade for the Philippines.

The lesson from the 1970s and 1980s, therefore, is clear: squeezing labour by restricting certain labour institutions such as unionism and collective bargaining can indeed lead to some economic growth. However, this is politically unsustainable as it is a surefire formula for labour unrest, whose consequences for the stability of society and the economy are difficult to predict. This is especially true if the promised tradeoff between temporary restrictions on labour and medium- and long-run prosperity does not materialize.

V. Labour market interventions

One of the major issues raised against protective labour institutions is the supposed rigidities they cause in the labour market. However, there are no concrete or clear indications that these institutional factors do cause rigidities. Moreover, the general trend in the labour market in the formal

Table 9. Distribution of establishments and employment by employment size: Philippines and the NCR: 1989 (preliminary)

Size of firm	Philippines		National Capital Region	
	No.	Employment (000s)	No.	Employment (000s)
1-4	268,190	633	59,957	152
5-9	54,770	343	19,019	120
10-19	17,129	225	7,227	95
20-49	9,759	287	4,745	140
50-99	3,404	230	1,719	115
100-199	1,952	266	974	133
200-499	1,303	391	644	193
500-999	420	285	220	149
1,000-1,999	176	230	92	124
2,000 and over	84	331	48	196
Total	357,187	3,221	94,645	1,417

Source: National Statistics Office, NEDA.

sector is towards greater flexibility. This trend is brought about by a number of factors, which include the following: firstly, the relative weakness of the trade union movement. It represents only a small segment of the labour force. Secondly, employers' access to flexible labour. Despite the existence of protective labour laws, employers are able to utilize casual labour. And third, wages are not as "sticky" as they appear.

1. Limited unionism in the limited formal sector

A telling feature of the economy is the limited employment in the formal sector. For the year 1989, preliminary data gathered by the National Statistics Office (NSO) indicate a total of 357,187 establishments distributed nationwide and employing a total work force of 3.2 million (Table 9). And yet, 268,190 of the firms or 75 per cent of the total employ less than five workers each. Moreover, out of the 3.2 million workers in the establishment survey, 976,000 or 30 per cent of the total are employed in firms with less than ten workers each. This means only 2.2 million workers are really organizable into unions since it is impractical to organize workers in establishments with less than ten workers.

The implications of the above statistics are staggering. Apart from the 1.9 million public sector workers, only 3.2 million out of the more than 8 million private sector wage and salary workers belong to the formal

Table 10. Collective bargaining agreements in effect and workers covered in relation to labour force, 1963-90

Year	CBA's (in effect)	Workers covered	Average workers per CBA	Workers as percentage of labour force
1963	544	152,864	281	1.49
1964	607	149,322	246	1.32
1965	488	116,144	238	1.08
1966	574	113,652	198	0.97
1967	624	124,800	200	1.06
1968	520	97,760	188	0.86
1969	584	131,400	225	1.09
1970	598	157,274	263	1.24
1971	738	154,242	209	1.16
1972	852	165,288	194	1.24
1973	787	153,465	195	1.05
1974	1,784	337,354	189	2.36
1975	1,763	273,355	155	1.80
1976	2,016	261,501	130	1.74
1977	2,033	216,066	106	1.44
1978	1,961	286,873	146	1.71
1979	1,715	187,450	168	1.70
1980	1,720	321,661	187	1.86
1981	1,852	332,511	180	1.80
1982	1,729	285,394	165	1.54
1983	1,779	271,015	152	1.33
1984	1,785	242,342	136	1.16
1985	2,029	262,000	129	1.23
1986	2,347	313,000	133	1.42
1987	3,112	355,000	114	1.55
1988	3,709	389,000	104	1.66
1989	4,098	374,631	91	1.57
1990	4,982	497,000	99	2.03

Source: Department of Labour and Employment.

sector establishments surveyed by the NSO. Moreover, in terms of establishment size, only 2.2 million are organizable into unions. So what exactly is the status of the remaining five to six million wage workers in the private sector? Obviously, they are either employed in micro-enterprises or in businesses that are not in the formal sector.

The above statistics also indicate the large size of the informal sector, which the crisis of the 1980s made visible. This sector has expanded by leaps and bounds as the unemployed, underemployed, minimum wage

earners and the harassed middle class sought ways and means of augmenting limited or falling incomes as a way of coping with the crisis. While many of the actors in the informal sector are supplying services, an increasing number are involved in industrial production as big firms, like the exporters of light products such as garments and toys, have learned to contract out work to smaller firms, registered or not. The share of the informal sector in the gross national product is estimated to reach as high as 40 to 50 per cent.¹¹

The relatively small number of organizable workers is reflected in the statistics on collective bargaining agreements (CBAs) and the number of workers covered by such CBAs. As shown in Table 10, there are less than half a million workers covered by the various CBAs in effect in the country in any given year. In 1988, there were only 389,000 workers covered by CBAs. The CBA figure represents roughly 5 per cent of the wage workers and 20 per cent of the estimated organizable 2.2 million workers.

To top it all, the Philippine trade union movement is a badly divided house. There are 7-8 labour centres, 140 labour federations and thousands of independent unions, whose leaders and lawyers are fiercely competing with one another. There are ideological, political, business and even family reasons why there is labour disunity. The situation is aggravated by the fact that the law does not forbid the various labour federations from organizing across industries or engaging in general unionism and "organizing" in companies which are already unionized. Under general unionism, every federation leader behaves like a general at war with the other generals.

2. *Trend towards casualization or the informalization of the formal sector*

Like in many countries of the world today, the phenomenon of labour flexibility is now a growing reality in the Philippines. Labour flexibility means "flexibility in the deployment of human resources, in working practices and in wages". It means "the ability to reduce or increase employment or wage levels with ease; the ability to increase mobility; the ability to make more elastic use of skills; the ability to introduce non-conventional working arrangements" [Kanawaty, et al., 1989, p. 277].

A study conducted by the U.P. School of Labour and Industrial Rela-

¹¹ A study of the National Tax Research Centre (NTRC) attributed 44 to 50 per cent of the GNP in 1984 to the underground economy, and between 39 and 42 per cent from 1980 through 1984. See abstract of the NTRC study in *Philippine Conference on the informal sector*, Pasig, Centre for Research and Communication, February 1988, p. 63.

tions in 1989 for ILO-ARTEP [Ofreneo, et al., 1990] shows that there are three major indicators of the general trend towards labour market flexibility in the Philippines: job subcontracting, agency hiring and application of various "Human Resources Development" (HRD) measures resulting in labour flexibility.

Job subcontracting

Job subcontracting is now widespread in the Philippines. Since the 1970s, the Department of Trade and Industry (DTI) has been openly promoting subcontracting in the garments and other export-led industries. The subcontracting business in the Philippines has both international and national dimensions, that is, many of the Philippine exporters, especially those in the Free Trade Zones, are subcontractors for foreign buyers or principals based abroad, and yet these exporters, in turn, play the role of principals for the local subcontractors. This situation is fully documented in the case of the export-oriented garment industry, which has emerged as the country's leading employer, with more than half a million workers, two thirds of whom are outside the formal factory system.

In the garment industry, part of the production process goes to factories but the bulk is sub-contracted to cottage-type producers in the rural areas. Sometimes, the subcontracting process outside the factory system is a multi-layered one, that is, an exporter or factory would subcontract jobs to a provincial agent, then the provincial agent would subcontract jobs to a town agent, then the town agent would subcontract jobs to a barrio agent, and finally, the barrio agent would farm out jobs to domestic outworkers, composed of women and children, gathered either in the barrio agent's home or in the houses of the needleworkers themselves or both.¹²

In contrast to the factory workers, the domestic outworkers in the garments industry are paid piece-rate and at rates that are abominably low considering that their collective labour has to support the multi-layered "sub-sub-sub-sub-sub-contracting system", and still prove to be competitive with the labour provided by factory workers. Because of the subcontracting process in the garment and other export-led light industries, regular factory workers in these industries are adversely affected in terms of reduced bargaining power. There are cases when shops literally "run away" from the workers when the latter get unionized and go on strike [Ofreneo, 1983, pp. 31-32].

¹² For a general overview on the mechanics of subcontracting, especially in the garments industry, see Pineda-Ofreneo [1989].

Agency hiring or labour contracting

The other type of subcontracting, service subcontracting, which is another term for manpower contracting, is less studied and yet, in the light of emerging facts from users, is as extensive as job subcontracting. Under service subcontracting, factory and service establishment owners try to divide or decompose their production or service operations into those that require central management control and those that can be manned by service agencies subject to certain management guidelines. In the past, agencies contracted by management groups to provide regular services were limited to those providing security, janitorial and catering services, which are deemed non-essential to the actual production process. But in recent times, the services being contracted have expanded to include equipment maintenance, office management, packaging/bottling, marketing, transport and so on. In some factories today, the agency workers or those provided by the service agencies outnumber the regular factory workers directly hired by the factory.

Agency hiring has proliferated because there is a demand for it and this demand can be met by workers willing to sell their labour services under the terms of the labour contracting agencies. A growing number of establishments are availing themselves of the labour supplied by agencies because of the cost differentials that can be realized through lower wages, benefits and other overhead costs compared to the hiring of regular and unionized workers; the savings achieved by avoiding the tedious and time-consuming tasks of advertising, screening, selecting and training new additional workers; and the need for flexibility with regard to length of service. Some temporary workers hired through the agencies are kept perpetually "temporary" by terminating them before the mandatory regularization period of six months and then re-hiring them after two or four weeks as "new" casual workers.

Organized labour has been waging a futile campaign against the proliferation of subcontracting. It has also had limited success in unionizing agency workers, who are easily pressured not to join unions because of the temporary character of their employment.

Other flexibility measures

Other measures include the employment of various HRD techniques to optimize labour utilization, e.g. training workers in various aspects of the production process so that employers can readily deploy or redeploy workers in various departments as needed.

3. *Non-sticky wages*

A common neoclassical assumption is that in a situation of abundant labour, a declining real wage is one way of making the labour market clear by facilitating greater investment in labour-intensive undertakings. However, the data show that there is not necessarily a correspondence between declining real wages and higher job generation (Table 11). The rapid decline in real wages in the 1970s was not accompanied by higher levels of employment generation. Instead, in the second half of the 1970s up to the 1980s there was a massive swelling of underemployment, a clear indication of job scarcity as many idle workers were forced to accept odd and irregular jobs, which are usually found in the growing informal sector.

VI. Protective labour institutions and alternative development strategy

In the light of the foregoing discussion, it is clear that some economists have been guilty of simplifying the role of protective labour institutions in the economic growth process in the country. The simplification of the role of labour institutions is related to the vital issue of what development strategy the country has to pursue — a major policy issue that has likewise been simplified to a question of either going labour-intensive or capital-intensive, outward-looking or inward-looking.

According to the proponents of the EOI strategy, the ISI strategy embraced by the Philippines in the 1950s to spur and accelerate industrial growth reached a dead end in the 1960s due to the narrowness of the domestic market and the inability of the so-called “infant industries” to move out of the cocoon of protection. Hence, the solution lies in the EOI strategy based on light and labour-intensive manufactures, in order to exploit the bigger global market, mop up the labour surplus and improve the country’s general level of competitiveness.

However, the historical analysis in this paper indicates that the end of the so-called “easy phase” of ISI development and the beginning of the decline in industrial growth came about more as a result of the lack of decisive economic direction during the 1960s.

Also, a closer look at the actual experiences of the advanced industrial countries of the West, as well as those of the very models of export orientation such as Japan, Taiwan (China) and the Republic of Korea, shows that these countries succeeded in traversing the path toward industrialization not by making the simplified choices presented above, but by seizing

Table 11. Unemployment/underemployment rates and the real wage index, 1971-86

Year	RWI (skilled workers) ¹	Unemployment ²	Underemployment ³
1971	105.1	4.9	13.6
1972	100.0	5.7	11.3
1973	92.4	4.9	12.3
1974	75.6	3.6	9.6
1975	72.7	4.2	12.7
1976	71.2	5.0	10.0
1977	72.9	5.2	24.2
1978	76.1	4.5	17.9
1979	70.8	4.1	19.8
1980	63.7	4.9	20.6
1981	68.4	5.3	23.9
1982	76.8	6.0	25.5
1983	87.1	4.4	29.8
1984	69.5	6.2	36.4
1985	66.6	7.1	22.2
1986	60.3	11.1	25.6

Note: Labour statistics for the years 1976-85 tend to portray lower rates of unemployment because labour force surveys used the "past quarter" reference period instead of the normal "past week" standard; also, before 1976, workers below 15 years old were included in the labour force statistics.

Source: ¹ Central Bank. ² Oshima et al. [1986], for years 1971-80; Department of Labour and Employment, for 1981-86.

opportunities for growth and development as they appeared, be they in the domestic or export market, be they import-replacing or not. In the case of Japan, Korea and Taiwan, these "export models" were developed by pursuing — simultaneously — aggressive export promotion, development of import substitution at increasingly higher levels of industry (from light to medium and heavy), protection for domestic industries, encouragement and assistance to local entrepreneurs, institutional reforms in certain social spheres (education, agriculture, etc.) and strong government intervention, especially in industrial planning. Such a path of development is quite different from what the laissez-faire economists have been preaching: an unalloyed deregulation in order to favour the export market.

1. What kind of development model or strategy?

What kind of development model or strategy, then, should the Philippines pursue?

There are no hard and fast formulas.

However, in the light of the experience of the more successful countries as well as the failure of the cheap-labour policy in the Philippines, it is important that an alternative development model be able to incorporate the following labour-related elements:

Investments in human resources

Continuing and ever-rising investments in a country's human resources play a pivotal role in the sustained development of a society. In fact, growth can be human-resources-led, as demonstrated by some of the fast-growing countries of Asia. Gus Edgren, former director of the ILO's Asian Regional Team for Employment Promotion (ARTEP), wrote: "In a human-resource-driven strategy, the competitive edge of the economy is neither commodities nor low-wage labour, but skills, entrepreneurship and research" [Edgren, 1989, p. 6].

Naturally, human-resource-led development, which implies rising productivity of a well-motivated work force, collides with the position of those who espouse a low-wage policy in support of a narrow labour-intensive, export-led strategy.

Safety nets for the working masses

It cannot be denied that in the transition to higher stages of development, especially during a period when there is a need to mobilize all possible resources for investment in future growth, painful adjustments are unavoidable. However, care should be taken that such adjustments do not unbalance the lives of the most vulnerable and the least able. The removal of protection for the poorer and weaker sections of society can be both costly and counter-productive, as it creates social divisions and fans social unrest.

Economic democracy

This means that the working masses should not be treated as mere objects of development but as partners in a national undertaking. Grassroots participation lies at the heart of economic democracy and is the key to hammering out a national production consensus.

However, to make grassroots participation possible and meaningful, *institutional reforms* in society are a must, in particular reforms that deepen the capacity of the working masses for creative and productive work (for example, democratization of access and upgrading of the educational system), reforms that broaden the ownership of productive assets (comprehensive land reform, progressive taxation, etc.), and reforms that guarantee representation and participation of the masses in policy formulation and

implementation (such as electoral reforms to give equal chances to both rich and poor candidates).

These reforms aimed at empowering the working masses are related to a more general observation: that one major reason why the Philippines has become an economic laggard in the region is because of its institutional weaknesses. It has failed to develop certain institutions needed for growth (e.g. entrepreneurship, efficient bureaucracy, clear and uniform rules to make the business and educational systems responsive to industry requirements, etc.) and to undertake urgent institutional reforms to stabilize society and the economy (e.g. land reform, professionalism in the military, etc.).

2. Role of protective labour institutions

Finally, it is imperative for economic planners and development strategists to take another look at the role of protective labour institutions in the economy. Instead of concentrating their analysis on the "disruptive" effects on the market of these institutions, development planners should pay more attention on how to harmonize policies on industrial relations with policies on education, science and the economy in order to develop skills and commitment in the work force.

As shown in this brief historical narrative, these labour institutions are necessary in maintaining stability in both society and the economy, without which growth is not possible. Of course, the role of labour institutions is not limited to the stabilizing function; as shown by the experience of some of the more developed countries, they can and do play a major role in the industrial transformation of an economy.

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