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# **Life After Crisis For Labor And Capital in the Era of Neoliberal Globalization**

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## **Abstract**

The aim of this paper is to discuss the outcomes of neoliberal globalization from the perspective of labor in the developing countries, with a particular emphasis on the crises that followed the substantial liberalization in capital accounts in the 1990s. Although a lot has been said about the effects of capital account liberalization on the macroeconomic performance of the economies, less attention is paid to the different effects on labor vs. capital. This paper analyses the outcomes of neoliberal globalization for labor in ten developing countries, and focuses on the episodes of crisis as part of the general class struggle where the question on who will carry the burden of adjustment is a part of the struggle. The paper describes the corner stones of the regime of growth in the neoliberal era, by analyzing the trends in growth, unemployment, and labor's share in income, and discusses the effects of the shocks generated by crises on these variables. The variables that reflect the macroeconomic effects of globalization are modeled as parameters that affect the bargaining power of labor on two levels: the first group is related with the interaction with the global economy, i.e. international trade, and FDI. The second is about the domestic fiscal and monetary policy variables, which are particularly related to the specific form that globalization takes in the era of neoliberalism, i.e. government expenditures, and the interest rate. Then the model is solved for distribution of income, i.e. the wage share, thus a reduced form of the model is obtained, which is estimated to test whether the change in the international and domestic macroeconomic environment has affected the decline the labor's share. We also empirically test whether the lower wage share has had any effect on unemployment, as the neoclassical theory claims, or whether unemployment is primarily driven by the goods market conditions a la Keynes. Finally we discuss the core stones of an alternative policy framework.

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## **Keywords**

Labor's share, developing countries, crisis, neoliberal policies, globalization, empirical estimation

## **JEL**

E240, O150, O190, J230, J300, F020

## 1. Introduction

Since 1980s, the world economy is being guided by neoliberal economic policies such as openness to trade, foreign direct investment and financial capital flows, and the dismantling of government regulations in financial markets, goods and labor markets. These policies reduce the role for macroeconomic policy interventions with the claim that free market capitalism would increase efficiency, growth and provide a fair distribution where all factors of production receive a return consistent with its marginal productivity. However, after two decades of domination of neoliberal policies, growth on average is lower, the unemployment problem has been persisting, and the distribution of income is changing at the expense of labor (Crotty and Dymski, 2000; Pollin, 2002; Easterly, 2001; Went, 2000). Obviously the problems of the current economic model are not neutral with respect to classes. Neoliberal policies on a national as well as international level were the answer of the capital to the crisis of the “Golden Age” of capitalism. The balance of power relations in favor of capital, which had made this shift possible, have not changed much ever since. This unfavorable situation of the labor movement makes it unavoidable for workers to carry the burden of adjustment during the shift as well as during episodes of crises.

The pro-capital redistribution of income in the era of neoliberal globalization has been experienced in the advanced capitalist countries as well as the developing countries. The increase in the mobility of capital and the stagnation in aggregate demand have been the central powers behind this synchronized development. The stagnation in demand led to higher unemployment and eroded the bargaining power of labor vis a vi capital. In the mean time, the increase in the mobility of capital has not only contributed to this erosion in the bargaining power of labor, but also increased the fragility built in the capitalist system via increased financialization and speculation. This, coupled with the tight fiscal and monetary policies, and a decrease in the purchasing power of the masses due to lower wages, set the conditions for the vicious cycle of deficient aggregate demand, low growth, low employment, and a crisis prone global economy.

The aim of this paper is to discuss the outcomes of neoliberal globalization from the perspective of labor in the developing countries, with a particular emphasis on the crises that followed the substantial liberalization in capital accounts in the 1990s. Although a lot has been said about the effects of capital account liberalization on the macroeconomic performance of the economies, less attention is paid to the different effects on labor vs. capital, according to the best of our knowledge at the time when this work was prepared, with the exception of the seminal works by Lee and Jayadev (2005), Harrison (2002), Diwan (2001), Rodrik (1998), Crotty and Dymski, (2000), Crotty and Lee (2002, 2004). This chapter analyses the outcomes of neoliberal globalization from the perspective of the class struggle between labor and capital over distribution in ten developing countries, and focuses on the episodes of crisis as part of this general struggle where the question on who will carry the burden of adjustment is part of the struggle. The concern of this study is the developing countries, which have liberalized their economies extensively, and have experienced financial crises in the 1990s, or are strongly effected by the financial crises in other developing countries and due to data limitations, the analysis is restricted to ten countries, i.e. Argentina, Brazil, Chile<sup>1</sup>, Mexico, Indonesia, Korea, Malaysia, Philippines, Thailand, and Turkey. This selection is also interesting because, it represents the major big developing economies of

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<sup>1</sup> Chile, although is not part of the countries that have had a financial crisis, the deterioration of the economic performance of the country since 1998, makes it a case to be analyzed, not the least because it still is being cited as a success story in Latin America.

Latin America and Asia, which have an important share in world trade. One distinguishing feature of this work from previous empirical work on the effect of globalization and crisis on distribution is that a detailed focus on countries will enable us to analyze the differences and similarities in the changes in distribution and unemployment across countries with respect to their different growth regimes. Also, although the works referred above cover a wide range of countries, their time span does not include the Asian crises in 1997, and the following crises in Latin America and Turkey. Finally, this work discusses the effect of labor's share on employment, whereas previous research concentrates on explaining the effect of globalization on labor's share.

The paper describes the corner stones of the regime of growth in the neoliberal era, by analyzing the trends in growth, unemployment, and labor's share in income, and discusses the effects of the shocks generated by crises on these variables. In the following, there will be three main issues of analysis: Firstly, what is happening to employment as the labor costs are decreasing? This question is empirically discussed by testing whether the lower wage share has had any effect on unemployment, as the neoclassical theory claims, or whether unemployment is primarily driven by the goods market conditions à la Keynes. Second, the effect of the growth regime on distribution will be analyzed. An empirical analysis of the cyclical behavior of labor's share is carried out to understand whether the crises episodes change the effect of demand on distribution. Since the source of growth can also be important on how the generated output is distributed, the effects of investment performance on labor's share are also discussed. Last the specific consequences of economic policy choices and liberalization on distribution are analyzed, in terms of foreign trade, foreign direct investment, exchange rate, interest rate, and fiscal policies.

The rest of the paper is organised as follows: The following section discusses the evolution of neoliberal globalization as an answer to the crisis of the "Golden Age" of capitalism, in order to understand the background of the empirical tendencies in terms of growth and distribution. A particular emphasis is given to the international division of labor and the class dynamics during this process, and the potential sources of instability in this new era. Section 3 reviews the literature on the effect of neoliberal globalization on distribution from a critical perspective. Section 4 presents the empirical analysis on the growth regime of neoliberal globalization and the effect of crisis on distribution. Section 5 discusses the corner stones of an alternative policy framework. Section 6 concludes.

## **2. Neoliberal globalization and the crisis of capitalism: Is it a way out?**

This section describes the rise and fall of the post-war world economy, and the evolution of the neoliberal policies as an answer of the capitalist classes of the North and the South to the crisis in the late 1970s. In this context, the section proceeds by discussing the effects of neoliberal structural adjustment programs in the South, with a particular emphasis on the capital account crises of the 1990s, which form the main focus of this paper. Particular attention is paid to the class dynamics of both the transition to the neoliberal regime, the crises, and the policies implemented thereafter. The section concludes by discussing the reasons behind the crisis of neoliberal globalization.

Neoliberal globalization was an answer to the crisis of the "Golden Age" of capitalism that lasted for almost three decades after the Second World War. The long lasting growth of the Golden Age system was based on a managed capitalist system, where governments controlled aggregate demand to maintain low unemployment rates, they regulated business and finance,

redistributed income via tax and transfer mechanisms, and generated a social welfare state (Crotty and Dymski, 2000). These policies contributed to maintaining a certain balance between the capital and unionized labor, working in large scale factories: High wages would fuel demand, and productivity improvements via high investments would moderate the increase in labor costs.

The international counterpart of these domestic Keynesian demand management policies was the Bretton Woods system of fixed exchange rates and capital controls at international level. In the meantime high growth rates in the advanced capitalist countries (ACCs), fuelled a sustained expansion in the developing countries (DCs), who imported capital goods from the ACCs and produced consumer goods for their domestic markets, where infant industries were protected via tariffs. This import substitutionist industrialization strategy in the DCs was mostly feasible thanks to international lending by the ACCs. This division of labor was particularly beneficial to the ACCs, who could on the one hand invest their excess savings in the DCs, and on the other hand enjoy the increased capacity of the DCs to import the capital goods that the ACCs has been producing. The fixed exchange rate system based on the dollar as the international reserve currency was important for the stability of the international system of payments, and the international hegemony of the US was central for the continuity of this system, such that any outflow of capital from US would eventually return to US in the form of demand for US goods.

However, the system was not free of conflicts on the national as well as the international level. At the international level, the rise of the European and Japanese economies as rival powers to the US, and the military expenditures of the US because of the Vietnam war disturbed the stability of the fixed exchange rate regime. At the national level, the low unemployment rates increased the militancy of the organized labor, leading to a profit squeeze, which combined with the increased capital stock, led to a decline in the profit rates. The increase in neither demand nor productivity was enough to offset this trend. As a response to falling profit rates investment started to stagnate, and stagflation marked the end of high and stable growth rates.

Towards the end of 1970s, the capital came out as the winner of this conflictual phase, due to reasons about the relative organizational power of the labor vs. capital, which are beyond the scope of this paper. This change in the power structure set the ground for pushing for minimizing regulations and opening markets, rather than reforming the regulations. The solution they pushed for was liberalization and deregulation in the goods, financial and labor markets; privatization; and increased mobility in the international markets not only for goods, but also for physical and financial capital. The interests of the multinational corporations and financial centers of the G7 countries, particularly of the US have been shaping the government policies in the ACCs as well as the international policies as mediated by the IMF, the World Bank and the World Trade Organization. Since the late 1970s, achieving minimal inflation rates via tight fiscal and monetary policy has removed fiscal policy interventions in behalf of employment expansion completely out of the agenda.

The implication of this change for the DCs was that the international headquarters of finance have replaced governments as the source of credits to the DCs. This change coupled with the hike of the interest rates as a result of the tight monetary policies in the ACCs, made the refinance of the debt extremely expensive, thus turned the indebted DCs into insolvent states. In order to be able to get access to further credit not only to roll over the debt, but also to meet the high interest payments, they had to accept the conditions of the structural adjustment

programs suggested as a uniform recipe by the IMF, who was responsible of making sure of the repayment capacity of the country on behalf of the international banks. The developing countries had to change their growth priorities such that they could earn the foreign exchange they needed for imports by means of their exports. The suggested version of export oriented growth model was an abandoning of industrialization priorities and trying to raise competitiveness in traditional exports based on low wages and devalued exchange rates. In the meantime, liberalization and deregulation, and the minimization of the role of the state in the economy had to take place with full speed, and the countries had to open their economies to international flows. The first major wave of opening up took place primarily in the goods markets. The domestic capital, which was ready to integrate to the world economy, and which wanted to get rid of the government regulations limiting its mobility and power vis a vis labor, was the local supporter of these international policies in the DCs, and at times also supported military coups.

The structural adjustment programs of the 1980s had already failed to deliver the promised benefits at the beginning of 1990s. Obviously, the export-led growth of the DCs could not be a sustainable success story for every developing country, given the limits to world demand, which even proved to be true for the East Asian miracles, although at a later date compared to the Latin American countries. However, 1990s was a time when the neoclassical camp could still dare to blame the policy mistakes of the governments for the failure of the neoliberal structural adjustment programs. So the countries were pushed to further liberalize their economies, in particular the capital accounts in the 1990s, in accordance with the policy recommendations of the international headquarters of finance and the large scale domestic capital, who was preparing to benefit from further opening up.

The neoliberal policies invaded the DCs with the promise that it would yield higher growth, employment and productivity growth through a more efficient allocation of resources within and across nations. As a result the developing economies would converge to the economic performance level in developed countries. However, the benefits have so far not been materialized. Laissez-faire capitalism has generated higher profits for multinational firms, and especially for the financial sector. However, the high financial returns have replaced profits from real activity in many cases. Nevertheless, the loss in labor's share has prevented the profits in the real sector from being eroded by increased interest payments. In spite of higher profit rates, in the ACCs, economic growth rates are well below their historical trends (Crotty and Dymski, 2000). In developing countries, a World Bank economist, Easterly (2001), points out at a rather controversial result: in 1980-98, median per capita income growth was 0.0 percent, as compared to 2.5 percent in 1960-79, in spite of the fact that the variables that are standard in growth regressions –like financial depth and the competitiveness of the exchange rate, health, education, fertility, and infrastructure- generally improved in the meantime.

The unregulated financial markets and the pressure of financial market investors is creating a bias in favor of asset purchases as opposed to asset creation. Since the emergence of deregulated financial markets, there has been an exponential growth in gross financial market trading across borders. The amount of funds raised on international financial markets relative to world exports has increased from 1.8% in 1970 to 23.7% in 1997 (Pollin, 2002). Today most of the effort of macroeconomic policy makers goes to policies to retain the confidence of volatile financial markets. Markets mainly have been deregulated to support the interests of capitalists and rentiers, who still benefit from investment subsidies, tax concessions and rescue operations during crises, while limiting the demands of workers.

There also are more crises in the post-1980s than in the 1970s. The highly liquid financial sector is generating a higher cyclical volatility in growth and employment via increased short-termism, and fragility. This regime of speculation-led growth in an open economy is making an endogenous cycle of boom-bust à la Minsky more likely not only through the domestic financial system but also through the integration of international financial markets, foreign trade and exchange rate dynamics (Arestis and Glickman, 2002). Diwan (2001) reports that, during the 1970s there were on average 7 crises per year; after 1982, the average jumps to 28, even before counting the crises after mid-1990s. Pollin (2002) cites a World Bank research, which reports that in 26 developing and industrialized countries suffering banking and currency crisis during 1980-95, financial sector liberalization within the five years preceding the crisis accurately predicted 67% of the banking crises and 71% of the currency crises. In a sample of developing countries, World Bank estimates that, during the banking crises GDP declined 14.6% below its trend-line growth (Pollin, 2002). When the banking crises intertwine with currency crises, the costs are even higher.

Regarding the crises following the liberalization of capital accounts, the first victim of the promised land of liberalization was Turkey in 1994, where the crisis occurred as a natural result of the vicious cycle of capital inflow-appreciation-current account deficit-capital outflow without any implicit nominal anchor policy accompanying it. The country specific conditions like the budget deficit and the government's attempt to decrease interest rates against the market sentiments were the easy candidate to blame for the crisis by the neoliberals. However, they had just increased the speed of the process, rather than generating it. This was soon followed by Mexico, where the blame was put on the exchange rate being used as a nominal anchor to decrease inflation.

These experiences did not prevent the G7 nations and the multilateral institutions from pushing for the deconstruction of the key policy features in East Asia in the late 1980s and 1990s. So the liberalization process, which had begun in late 1970s to mid-1980s in East Asia, was completed in mid-1990s. The aim was to demolish the restrictions on the foreign capitalists that prevent them from benefiting from the East Asian miracle, although the discourse was as usual centered on increasing efficiency. In the meantime, domestic capital also wanted to increase its mobility to borrow and invest to cope with the fierce global competition. The big domestic firms, which had so far successfully climbed up the industrial ladder, had started to believe that they could become even bigger players. Controls on the flow of capital was removed in all East Asian countries with the exception of South Korea, which still maintained significant controls in 1996, which were only to be reduced by the IMF "rescue" package after the crisis (Arestis and Glickman, 2002).

The East Asian crisis deepened the crisis of aggregate demand deficiency in the world economy and spread the contingency effects of the crisis beyond the continent to Latin America, and Russia. Particularly Brazil and Mexico had rebuilt their economies after the debt crises precisely according to the recipes of the IMF, but this did not make them any less prone to crises. Argentina, who could initially postpone the crisis, only managed to do so until the end of 2001, demolishing the last model of neoliberal growth. Turkey, thanks to being relatively poor in attracting capital inflows after the 1994 crisis, managed to stay immune to the 1997 wave of crises, only to have its own home-made crisis in 2001 caused by a nominal anchor based anti-inflation program supported by the IMF.

Until the massive collapse of the East Asian miracles, it was easier for the neoliberal policy makers and economists to blame Turkey or Latin Americans for errors in policy



implementation. During the Asian crisis, the excuse of the strongholds of neoliberal policies like the Economist or the IMF and the World Bank, as well as conservative economists has been the so-called distortions that had been created by active state policies in the past, corruption, cronyism, or exchange-rate pegging policy<sup>2</sup>. However, just a few years before the crisis the IMF and the World Bank was praising the East Asian model admitting that government interventions have resulted in higher and more equal growth in those countries (Crotty and Lee, 2004; Crotty and Dymksi, 2000). Furthermore, if there exist any policy problem at all, it is the departure away from policies like investment coordination, which fuelled massive foreign borrowing by the private sector, starting from 1990s.

The proper response to the crisis would have been to repair the damage by financial liberalization by reconstituting capital controls and creating an effective system of financial regulation to address the problem of excess capacity, while being responsive to the democratic needs of the people, as opposed to the domestic and international capital (Crotty and Lee, 2004). However, quite contrary to that the IMF conditionality credit imposed sky-high interest rates, restrictive fiscal policy, tough new banking standards, leading to severe recession, unemployment, financial resiliency and credit crunch. The IMF policies turned a liquidity crisis into a solvency crisis, as the nation state was denied any intervention (Taylor, 1998). This created the ground for foreigners to buy Asian firms and banks at rock bottom prices (Crotty and Lee, 2002). In the meantime, the crisis not only prepared the ground for opening Asia to the interests of foreign investors to full extent, but also resolved the accumulated conflicts between domestic capital and labor. Crotty and Lee (2004) emphasize the importance of the crisis episodes for facilitating the radical neoliberal restructuring which could not be achieved through democratic process under normal economic times. In a country like Korea, which has been reasonably prosperous, only during the times of crisis, the panicked public can be led to believe that failure to accept IMF dictates would be even more disastrous than their implementation, and a new labor law can be passed without too extensive mobilizations.

The same story has been true in most other developing countries. At best not daring to upset the domestic and international capitalists, or mostly being in close ties to the big corporations via either ownership or financing of their election campaigns, the politicians in power are taking active steps for a pro-capital redistribution of income via taxation and expenditure policies. The need to run high primary surpluses is being presented as the objective truth, although it in reality is just the obvious tool to continue the payments of the interest on debt. The ideological discourse about the so-called inefficiency of the state is arresting the social expenditures and state investments. The only exception to this generalization is Argentina, where extend of the popular unrest and self-organization of the masses has managed to pressurize the government to be disobedient to further austerity packages, and increase focus on social policy, at least temporarily and even if without any fundamental shift in economic strategy.

So what do we learn from the experiences of two decades of crisis? The neoliberal globalization, with its pro-capital policies, based on low wages, weak unions, mobile capital, high interest rates, and restrictive fiscal policy, is a struggle of the international capital to get out of the crisis of the Golden Age. But it has brought together its own long term contradictions embedded in the very structures and policies of the neoliberal regime, which leads to chronically insufficient growth in aggregate demand and its flip-side, chronic excess

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<sup>2</sup> Arestis and Glickman (2002) reviews different theories explaining the Asian crisis and contrast them with a Minskian analysis of the crisis.

aggregate supply (Crotty and Dymski, 2000). This is resulting in a decline in the level of investment, as well as a change in its character towards labor saving rather than capacity expanding investment. The firms go on over-investing in cutting edge technology, moving across the borders to areas of cheap labor, smashing unions, cutting wages, pushing for tax cuts to survive through competition. However, this destructive competition is further aggravating demand deficiencies. As production becomes more sophisticated to meet the diversified demands of the international global elite, competition is becoming fiercer in order to take more share of the insufficient global demand (Went, 2000). Although in individual countries there can be cases where high profits generate high investment and growth, the global economy is wage-led in the aggregate sense; thus a global decline in the wage share is leading to global stagnation (Blecker, 2002). Figure 1 summarizes the effects of neoliberal globalization on labor, and the vicious circle it generates through its internal conflicts.

### **3. Literature: Deciding on a research question is not a politically neutral choice**

Not surprisingly the literature that addresses the consequences of globalization for income distribution along the lines of labor vs. capital is limited in size, in correlation with the number of heterodox economists, ranging from Marxists and post-Keynesians to those economists, who are unhappy with the results of neoliberal capitalism and are hoping for a democratic capitalism.

In the mainstream camp, there is a growing amount of research restricted to the effects of liberalization on growth, poverty and inequality, among which some of the most cited examples are the works of Dollar and Kraay (2000), Milanovic (1999), and Barro (1999). As the liberalization programs failed to deliver the promised results, there has been a boom in the research on poverty by the IMF and World Bank experts in the 1990s. Similarly, the World Bank, who is scared of the anger of the “hungry masses”, has increased its concern for special projects targeting the poorest. But in the last instance all this research still tries to convince the audience about the merits of liberalization, privatization and tight monetary and fiscal policies. The mainstream literature on poverty is arguing that policies that facilitate the integration of the developing countries to the world economy, and particularly trade liberalization, if implemented under the “right” institutional framework, will facilitate growth, and growth in the last instance is good for all sectors of the society. Thus, as two of the famous World Bank experts, Dollar and Kraay (2000, 2001), claim “Growth is good for the poor”. In order to verify this claim, cross section and panel data sets are being analyzed thoroughly via the most recent econometric techniques<sup>3</sup>. One important effort of this line of research is that growth doesn’t worsen income distribution, but effects all income groups in the same way, thus it is also good for the poor. In the 2001 Conference of WIDER (World Institute for Development Economics Research) on Growth, John Weeks has criticized this report in a very ironical way, saying that it would be very embarrassing for the policy makers in the 1970s to claim that growth is neutral with respect to income distribution, thus it doesn’t effect the income distribution. Under the balance of power relations and ideological environment of the 1970s, such a “negative” finding would immediately bring together policy suggestions to correct income distribution via redistributive income and wealth policies. However today other than few heterodox economists no one pronounces the dangerous words

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<sup>3</sup> See Dagdeviren, Hoeven and Weeks (2001), Cornia and Kiiski (2001), and Vandemoortele (2001) for a critical discussion of this literature. Galbraith et. al. (2000) also present a critique of these studies from the point of view of data they use, which is based on a mixed source of distribution data, and suggest the use of industrial wage data, which is consistent and has a wider coverage across countries for the analysis of income inequality.

of “redistribution” and “intervention”. But as Dagdeviren, Hoeven and Weeks (2001) show, the active policies that target a redistribution of wealth and income have far reaching impacts in the struggle against poverty, particularly in middle income countries, that are impossible to achieve for years simply by relying on growth policies. Angeles-Castro (2004) shows that FDI worsens inequality, and exports based on primary sector does not form an appropriate basis for reducing inequality, whereas a strategy based on industrialization can have better consequences for income distribution.

Furthermore the mainstream poverty literature does not admit that the sacrifices for growth are always expected from labor. If the workers and the poor are patient enough, they may also benefit from the outcomes of the increase in the wealth of the rich in the long run: More profit, more investment, more jobs. However in the current state of the world economy higher profits have only generated higher uncertainty, less investment and fewer jobs. In the recent three decades there has been a significant break in the link between profits and investment as well as a change in the nature of investments. The key reason of poverty and income inequality is the depressive long wave that the world economy is going through.

Diwan (2001) very rightly criticizes the available research on the effect of globalization on inequality by focusing on the wrong variables, like measures of poverty, income inequality, returns to skilled vs. unskilled labor or to education, which are not reflecting the facts about the relative incomes accruing to labor and capital. Thus most of the mainstream work misses the crucial point on the essence of class struggle. Although it is undoubtedly useful to understand the intra-class distribution of income, the vast majority of this liberalization-friendly literature is always concerned with either the bottom line of poverty, or inequality among classless households or individuals. This rightly poses a question about the missing side of the research agenda: What about the inter-class differences? The ideological background of this research choice is clear: It on the one hand dismisses the fact that not only poverty is increasing but also labor as a class has been losing against capital. On the other hand, it points at organized labor to be blamed for inequality within the labor. However, once the curtain of sophisticated regressions is removed, this whole biased research agenda tries to prove that growth would be enough to solve the problems. Indeed translating it to a more direct result, the policy conclusion boils down to the ridiculous claim that some workers are poor or unemployed because some other workers are not poor enough.

However, looking at the conclusions of neoliberal globalization from a class perspective shows a rather different picture. There is a limited but valuable accumulation of research on the impact of globalization on labor, although with clearly varying degrees of critique of neoliberal globalization<sup>4</sup>. The work by Rodrik (1998a), Diwan (2001), Harrison (2002), Lee and Jayadev (2005), based on an international panel of advanced capitalist as well as developing countries report empirical tests of the effects of globalization on labor<sup>5</sup>. Rama (2001) finds out that exposure to world markets is associated with lower wages, but he places the focus mostly on unskilled workers, as trade and foreign direct investment increases the returns to education. Fallon and Licas (2002) show that during the financial crisis of 1990s,

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<sup>4</sup> Some of this work is still unpublished and in progress, as the authors themselves report. Since the whole research area is in a progress of improvement, there may be some more unpublished research papers that will only reach our attention in the coming years.

<sup>5</sup> The interesting thing is that all these studies, except Lee and Jayadev (2005), were still unpublished at the time when this paper was written, which could be due to the continuous efforts of the authors to incorporate new information about the recent wave of crises. Although speculating about the reasons of this is beyond the scope of this paper, the fact certainly deserves attention.

economies that suffered the sharpest currency depreciations suffered the deepest cuts in real wages, and these cuts were even associated with some rises in unemployment. They also show that although employment fell much less than production declines and even increased in some cases, these aggregates mask considerable churning in employment across sectors, employment status, and location, and points at the long-term effects of the short-lived crises on particularly poorer households. Boratav et al. (1996) in a study for 14 developing countries, discuss that the structural adjustment programs have led to wage-cycles, where downward movements are of greater magnitude than even the most prominent upward movements, showing the prevalence of a downward trend in most of the countries. This indicates that the burden of adjustment and stabilization is carried by labor. Crotty and Dymski, (2000) and Crotty and Lee (2002, 2004) discuss the political economy of the Asian crisis from the perspective of international and domestic capital and labor. Pollin (2002) discusses the effects of globalization on the workers of the South and the North and discusses policy alternatives for an egalitarian development. The work by Akyüz, Flassbeck, and Kozul-Wright (2005) in this volume is an important recent contribution.

The empirical studies by Rodrik (1998a), Diwan (2001), Harrison (2002), Lee and Jayadev (2005) are particularly of concern to this paper. The data set of the cross-country empirical work by Rodrik (1998a) is manufacturing wages from World Bank Labor Market Data Base by Rama (1996), and the data set of Diwan, (2001), Harrison (2002), and Lee and Jayadev (2005) is based on UN national accounts database. The data extends roughly from 1970s to mid 1990s, and is spotty after 1990s. So the modest empirical aim of this paper is to discuss the developments since mid 1990s, with a particular attention to cross-country heterogeneity, although based on a much more limited data source than theirs. This discussion is particularly important since the crises cover the experiences of some of the success stories of 1990s, as East Asian countries, or Argentina.

According to Rodrik (1998a), Diwan (2001), Harrison (2002), there is a secular fall in labor's share across developing and advanced capitalist countries. There is a sharp downward reversal in labor shares in many OECD countries, particularly European countries after mid 1970s and early 1980s. The labor share in Latin America reaches a peak point in 1982 followed by a decline. In Africa the labor share has fallen sharply; in the Middle East they have followed oil prices; and in Asia they have remained essentially flat with small rises in some countries and small declines in others. The conclusions of the empirical research point at some regularities about the falling trend in labor share across countries, although the effects are at times controversial: Rodrik (1998a) and Harrison (2002) find a negative connection between the share of trade in GDP and labor share; however according to Diwan (2001) the negative impact is dominated by normal years, whereas during a crisis there is a positive effect. Capital controls have a positive effect on labor share (Rodrik, 1998a; Diwan, 2001; Harrison, 2002; Lee and Jayadev, 2005)<sup>6</sup>. The absence of capital account restrictions is associated with wages that are lower by 22% (Rodrik, 1998a). Losses to labor within a crisis tend to be large in the presence of liquid financial capital (Diwan, 2001). Labor share is higher in larger countries, with the effect being more important during crises, thus size offers some protection (Diwan,

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<sup>6</sup> Diwan (2001) argues that the effect is larger during a crisis, and adds that there also is a lot of variability in these effects between poor and rich countries, as well as from medium to longer run. A larger trade and a more open capital account are associated in poorer countries with increases in the labor share in the long run and the reverse in richer countries, since capital accumulation is beneficial to labor. However, according to Lee and Jayadev (2005), although crises exert an additional downward pressure, they do not change the coefficient of capital account openness considerably. The same is through for developing countries, and for the long run as well.

2001). Diwan (2001) also finds a large negative trend in the labor share that cannot be explained by these variables. Diwan (2001) reports that the secular fall of the labor share is especially marked for countries, which have experienced financial crises. Thus, financial crises are episodes of distributional fights, which leave "distributional scars". Foreign direct investment has a negative effect on labor's share, indicating that favorable conditions for capital mobility coincide with low wages (Harrison, 2002). This may also be capturing inverse causality. Government spending has a positive effect (Lee and Jayadev, 2005; Harrison, 2002; Diwan, 2001), but during the crisis years labor ends up paying back the debt (Diwan, 2001). Harrison (2002) finds that labor share or wages are strongly and positively connected with capital/labor ratio, as a measure of development, however concludes that the positive effects of increased capital accumulation is wiped out by the negative impact of reduced capital controls and depreciating exchange rates in poorer countries. Harrison (2002) and Lee and Jayadev (2005) argue that large swings in the exchange rate lead to a fall in labor share.

Diwan (2001) defines a financial crisis as a year where the nominal exchange rate depreciates by 25%. Labor share falls on average by 0.6 points in the three years preceding a crisis, by five percentage points during the financial crisis, and remains below its average by 2.6 percent in the three subsequent years. As crises are repeated, effect tends to increase over the whole period. On average labor share has dropped permanently by 4.5% points of GDP during the crises of the past three decades. The accumulated effect is particularly large in Latin America at 7.4 points of GDP on average per crisis country. In most cases, the recovery is not total and episodes of crisis bring eventually a net loss to labor.

The mechanism behind the distributional asymmetry in the outcomes of the crisis is mostly explained by the asymmetry in the mobility of labor and capital, as the fixed costs of relocating is much larger for workers and there are larger legal barriers (Diwan, 2001; Rodrik, 1998a; Harrison, 2002; Crotty, et al. 1997). This asymmetry is increasing the elasticity of labor demand and also increasing labor's share of the tax burden since it is becoming harder to tax capital, which not only leads to lower wages but also increases the effects of negative shocks on wages and employment, thus increasing volatility (Rodrik, 1998a). The threat to flee is enough to help capital to acquire the international interest rate plus a premium to compensate for risk regardless of the realization of the threat. Also the fact that labor has to compete harder to attract capital leads to lower wages via the so-called "race to the bottom". Diwan (2001) shows that financial crisis have become more unequalizing over time, as the mobility of capital has increased, causing a larger share of losses to be shifted away from capital to labor. Pollin (2002) additionally points at the increase in unemployment, thus the reserve army of labor in Marxist terms, which has shifted the bargaining power in favor of capital. Also the power of nation-states to influence economic activity is eroded as economies become more integrated, while the power of business and market forces is rising. Crotty and Dymski (2000) emphasize the centrality of the aggregate demand deficiency generated by the neoliberal regime in generating aggressive regimes of labor policy.

#### **4. Crisis as part of the class struggle**

##### **4.1 Stylized facts**

This section discusses some empirical regularities about the consequences of neoliberal globalization and the crises on distribution of income and labor market outcomes based on data from the World Bank World Development Indicators Database (WDI), 1993 and 2003,

United Nations (UN) National Accounts Database, OECD Industrial Structural Analysis (STAN), the Economist Intelligence Unit (EIU), and the IMF International Financial Statistics (IFS).

The data on distribution and labor market outcomes is the hardest of all to access for not only developing countries but also OECD countries. In spite of the reporting problems and high costs associated with data collection on income, the lack of data on factoral income distribution is worth noting, particularly compared to the improved data quality regarding most other variables regarding the financial sector and international flows. Labor share data exists in the World Bank WDI database for the share of wages in manufacturing value added until 1993, but then the release of this data is terminated in the following versions of the same database. It is possible to calculate the labor's share in manufacturing based on wage and productivity data in the EIU database, but the wage data starts from 1980s onwards for some countries, and from 1990s for most others. UN National Accounts Database provides distribution data, however unfortunately the data about the compensation to employees, nation wide as well as in manufacturing, is provided only for a subset of the countries, which are analyzed in this study. Furthermore this database also provides information only from 1990s onwards for most countries. Another problem is related to the quality of the nationwide data. For example, OECD National Accounts Database reports estimations for labor's share for developing member countries, but in Turkey there is no nation wide labor compensation data collected. Similarly the OECD nationwide labor's compensation data for Korea has been revised recently, such that the extent of revisions covers data way back to 1970s. Based on these observations, we conclude that the labor's share data for manufacturing industry is more reliable and offers longer time series for a larger range of countries; thus in spite of problems, and discontinuities in the available data series, this study is based on manufacturing data rather than nationwide income distribution. Another advantage of working with manufacturing data is to abstract from the structural change and industrialization in the economy, which can lead to a reduction in the share of self-employment income, thus an increase in labor's share if everything else were constant<sup>7</sup>.

In line with the choice of the manufacturing wage share as the indicator of distribution, for consistency in the empirical estimations, sector specific variables, i.e. growth, and export and import ratios will also be defined as the growth of value added in manufacturing value added, and the share of exports and imports in manufacturing value added. This also has the advantage of focusing on the manufacturing sector, which is the locomotive of growth in developing countries, and which was also accepted as the engine of export boom in the context of structural adjustment programs.

The manufacturing labor share data for Turkey, Mexico and Korea are from OECD STAN Database and national sources. For Brazil, Chile, Philippines, and Thailand, the UN manufacturing data is combined with the WDI database, and for Argentina, Indonesia, and Malaysia WDI data is combined with the EIU database based on percentage changes. Unemployment data is from EIU. The source for the other variables is World Bank, EIU and IFS.

Before looking at the labor market outcomes, it is useful to have a comparative overview of the growth performance of the economies in the 1970s and post-1980s. The annual average

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<sup>7</sup> Galbraith et. al. (2000) discuss data related issues in the analysis of inequality, and they suggest the use of industry wage data. Although their analysis is focusing on wage inequality rather than factoral income distribution, we share the common point of finding industrial wage data as a more reliable source of income data.

growth rate of GDP is lower and its volatility is higher in the post-1980s compared to 1970s in all countries but Chile. The change is particularly dramatic with a decline in period averages, which is even greater than 2 percentage points in Argentina, Brazil, Mexico, Indonesia, Korea, Philippines, and Thailand who have been the fast growers of 1970s. In Brazil, Mexico, Indonesia, Korea, Philippines, Thailand and Turkey the deterioration in growth is continual with 1990s being worse than 1980s, whereas in Argentina and Mexico there is an improvement in 1990s compared to 1980s, however the period averages are still lower than those in 1970s. Since the empirical analysis is based on labor's share in manufacturing, we will also briefly discuss the developments in terms of the value added in manufacturing. The first block of Table 1 reports period averages for manufacturing growth. The pattern is the same as GDP, thus for all countries, except for Chile, growth in manufacturing is lower with a higher volatility in the 1980s.

The second block of Table 1 shows the wage share in manufacturing value added. Figure 2 also shows the time series for each country. The wage share is lower in the post-1980s compared to 1970s in all countries with usually significant margins other than in Korea, Philippines, and Thailand. In six out of ten countries (Brazil, Indonesia, Malaysia, Mexico, Thailand, and Turkey) the volatility of the wage share has increased over time. The decline is particularly dramatic in Argentina, Chile, Mexico, Indonesia, and Turkey with the decrease between the two periods ranging between 14.4% to 38.3%. In Argentina, Brazil, Indonesia, Malaysia, Mexico, and Turkey also the wage share in the 1990s is lower than that in the 1980s.

The crises of the post-1990s have a clear and long lasting effect in all countries. In almost all countries GDP, as well as manufacturing value added starts to recover a year after the crisis and restores its pre-crisis level mostly in one year, however the fall in wage share is much more persistent. Furthermore the percentage fall in the wage share by far exceeds the rate of decline in economic activity even during the crisis. During the crises in 1994 & 2001 in Turkey, 1995 in Mexico, 1998 in East Asia, and in 2001 in Argentina, and their reflections in Brazil, the fall in the wage share continues for mostly 2 or even 3 years, reaching upto a cumulative level of 30.2% in the case of Turkey in three years during 2001-2003. In Indonesia the decline was short lived, but extensive with a rate of 29.5%. In Mexico ever since 1994, in all East Asian countries since 1997, in Brazil since 1998, in Argentina since 2001, in Turkey since 2001 the wage share is lower than the pre-crisis level as of 2003. In Mexico, which has had the early crisis of 1994, labor's share has not recovered even nine years after the crisis.

The broad numbers about real wages deflated based on a general consumer price index hide an important information about how different income groups are affected as inflation accelerates after the crisis. Given that food consumption forms a significant proportion of the consumption budget of working class households, higher food price inflation will affect them more adversely than others and decrease real wages even more than what we observe based on average consumer price inflation rates. Food price inflation has exceeded average consumer price inflation rates in Turkey in 1994 and 1995 by 3.7 and 9 points respectively, in Mexico in 1995 and 1996 by 4.2 and 7.2 points respectively, in Indonesia from 1997 to 1999 by values ranging between 2.1 and 34.7 percentage points, in Korea in 1998 and 1999 by 1.2 and 2.0 points respectively, in Malaysia from 1997 to 1999 by values ranging between 1.5 and 3.6 points, in Argentina in 2002 by 8.8 percentage points. In Mexico ever since 1994, in Korea, Indonesia and Malaysia since 1997 this distortion has not been corrected. In Argentina the result is yet to be seen.

Data on unemployment rates exist only since 1980s onwards for almost all countries. Figure 3 shows the time series for each country. Therefore it is not proper for long term analysis, as well as time series estimations. However, still a couple of notes are in place here. There is an increasing trend in unemployment in Argentina, Brazil, Indonesia, and Philippines, which had further adverse shocks after the crisis of 1997 with lasting effects. In Turkey, the unemployment rate has been stable at a high rate without any improvement in the era of liberalization, and a serious hike up since the recent crisis of 2001. In Mexico, unemployment rate which increased seriously after the 1994 crisis, returned back to pre-crisis level only after five years, and there is an increasing trend in the 2000s. In Korea and Malaysia unemployment rates had declined to quite low rates during the post-1980s due to the powerful employment creation capacity of the economy, which however was dramatically disturbed by the crisis of 1997. The most dramatic shock after the crisis among the East Asian countries has been in Korea, where unemployment rate has increased from 2.6% in 1997 to 7.0% in 1998. The same trend has also been valid for Chile, who has been experiencing an increase since 1994 and particularly since 1998 after a continuous falling trend during the 1980s and 1990s. In most countries after the crisis, unemployment goes on increasing for two years. In Turkey for three years, and in Philippines, Malaysia and Indonesia for six years after the crisis, the increase is still going on. Since the crisis of 1997 and 2000s, in no country the unemployment rates have returned to the pre-shock levels as of now.

One of the challenging aspects of these developments for the architects and promoters of a global neoliberal model is that all these countries have experienced a literal boom in manufacturing exports as a ratio to manufacturing value added<sup>8</sup>, as can be seen in the third part of Table 1. Export oriented growth strategy, given that developing countries have a comparative advantage in labor intensive sectors, was expected to increase the demand for labor, and consequently the wage share. This expectation has not been realized in the majority of these countries. In Korea, one of the few countries, where labor's share has increased, export/value added ratio has increased much less compared to the other countries, and it is not one of the countries with the highest export intensity. However, the increase in exports is also followed by an increase in import/value added ratio as a result of reduction in tariffs in the post-1980s, with the exception of Indonesia, as can be seen in the fourth block of Table 1. Yet, the trade deficit in manufacturing became lower in all countries other than Argentina and Chile. Thus, the determinant effect of trade liberalization on manufacturing was an export boom, surpassing the increase in imports. This makes the parallel decline in the wage share all the more interesting.

On the other hand, the opening up of these economies, went along with huge devaluations of the domestic currency with the aim of achieving higher international competitiveness. Other than in Chile and Korea there have been significant increases in rates of nominal depreciation in the 1980s, as can be seen in the fifth block of Table 1, which report the percentage increase in the exchange rate, measured as local currency/US dollar. Nominal depreciation rates reach dramatic levels during the crisis years of the late 1990s, when the nominal anchor based anti-inflationist stabilization programs had come to their ends following massive capital outflows with overshooting effects. Be it due to the official devaluations of the early stages of liberalization or the market made depreciations after financial crises, there is a clear trade-off between rate of depreciation and the wage share. Given that developing countries are import dependent, a depreciation, which creates an increase in the price of the imported goods

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<sup>8</sup> The ratio of exports to output would be a more proper measure of export intensity in manufacturing industry, but due to data availability problems, we use export/value added.



generates an important increase in overall input costs. Depending on the balance of power relations, the increase in input costs is mostly offset by a decline in labor costs. Similarly, the reverse is also true, during episodes of capital inflow, and appreciation of the currency. However, these episodes are sooner or later disturbed by the increased current account deficits and fragility in the economy leading to crisis, as the regular practice after capital account liberalization. The negative effect of depreciation also depends on the significance of dolarization of the economy, which determines the destructive dimensions of a currency crisis. On the other hand, the depreciation of the nominal currency during the crisis years leads in all cases to a significant increase in export/value added ratios, however these developments go hand in hand with the decline in the wage share during the crises.

The other important effect of globalization and liberalization is the increase in FDI, which became remarkable in 1990s, as can be seen in the sixth block of Table 1. The only country that experienced a decline in FDI is Indonesia, but this development is dominated by the capital outflows, as well as the decline in inflows to this country after the Asian crisis. However, once again, the overall increase in FDI was not able to generate better terms of employment and wage. Obviously lower labor costs relative to the origin of land is an important factor that motivates FDI. Nevertheless, it is still worthy of note that a decade of FDI inflow has not been able to generate an improvement in the wage share within these countries through time. A more detailed analysis of this issue will be made through the econometric analysis, which discusses the effect of FDI after controlling for other factors.

Finally, in the last three blocks of Table 1, we report the developments regarding the interest rate and public finance. The real interest rate of lending (the rate charged by banks on loans to prime customers, deflated by the GDP deflator), which was either negative or very low in the 1970s, has increased dramatically in all countries, other than in Chile, following the financial liberalization of the 1980s. Particularly the currency crises result in hikes in the real interest rates. In most cases the increase begins indeed a year before the break of the crisis, as a response to the negative expectations of the foreign investors about the stability of the growth performance of the economy. However this increase is unable to prevent the crisis, and the crisis results in a considerable jump in the real interest rate, such that in some cases like Korea, Turkey, or Brazil, the real interest rate stays higher than before for six to seven years. Even in cases when the growth rate in the country is not directly affected from a crisis, the spill over effects can lead to significant increases, like the increase in the real interest rate Mexico for two years following the Asian crisis. The second important change about the economic policy variables is in the share of interest expenditures of the government in total expenditures, which reflects the effects of financial liberalization on the economy, as well as the crowding out effect of debt on government's current spending. In all countries other than Chile, there is an increase in interest payments in the post-1980s. Argentina has experienced high interest payments in the first half of 1980s and then once again the late 1990s; Brazil and Mexico until mid 1990s; Chile after the hike in the second half of 1970s, and once again in mid 1980s to mid 1990s. In Turkey there has been a gradual increase since 1980s. In all East Asian countries there was a gradual increase in the post-1980s, followed by a decline in the first half of the 1990s, which was sharply reversed after the Asian crisis. The hike in interest payments is a typical experience after a crises shared by all countries. Regarding government's final consumption expenditure/GDP there seems to be no big change before and after 1980s, looking at the periods averages in the last block of Table 1. 1980s begin usually with a decline, which last until mid-1990s (Chile, Indonesia, Malaysia) or early 1990s (Argentina, Korea, Mexico, Thailand) or even shorter (Brazil, Turkey, Philippines), after when government's final consumption expenditures/GDP is stabilized around an average or

increased. Government final expenditures also do not follow a clear counter-cyclical pattern. However, it is particularly interesting that government expenditures play no counter-cyclical role during the crisis years, and contract in some cases for 2 years (e.g. Argentina: 2002-3; Korea: 1999-2000; Turkey: 1994-95) or longer (e.g. Philippines: 1999-2003).

The policy choices about budget expenditures reflect clearly how the state is involved in the class struggle during the era of neoliberal globalization. The share of wages in government expenditures has a general declining trend. As the share of wages in government expenses contract, the share of interest payments increases in most countries. Figure 4 shows the time series for each country. While the demands of international and domestic borrowers are met, wages and social expenditures and investment have to take their shares of budget cuts. In a study for OECD countries, Epstein and Power (2003) report that in Turkey, Mexico and Korea, the share of the rentier in national income has increased following periods of financial liberalization; but this increase has not come at the expense of profit shares accruing to non-financial corporations, suggesting that there is a material basis for unity, rather than rivalry, between industrial and financial capital. This result obviously is related to the decline in labor shares, which compensate for the increase in financial costs for industrial firms. Evidence also suggests that industrial firms also find the chance to increase their returns from financial activities.

Although a more detailed analysis of the interaction of the growth regime and distribution requires an econometric analysis, the stylised facts point out at some striking results. The fact that the rate of unemployment has been increasing in countries, where wage share has been decreasing, is pointing at the weakness of the demand side of the labor market to generate new jobs simply based on cost cutting. The export-led industrialization strategy has so far failed to deliver its promises in terms of creating jobs. Although the share of manufacturing exports from developing countries has risen dramatically, the rate of increase in industrial employment has decreased in some leading exporter countries like Brazil, Mexico, Turkey, Korea, Malaysia, Philippines and decreased in absolute terms in the case of Argentina. When all developing countries try to implement the same export-led strategy, some countries just fail, since not every one can be the winner. As competition becomes fiercer, either the capital intensity of production increases via new investments in the case of many East Asian countries, or labor shedding becomes a general tendency in some other countries like in Latin America. Under deepening competition lower real wages do not suffice to generate more jobs in export industries. An analysis for the apparel industry, which is the ultimate export industry for developing countries, shows that there is no statistically significant relationship at all between real wage and employment growth in 45 OECD and non-OECD countries (Pollin et al, 2004). As high unemployment rates suppress real wages, the decline in the share of wage income contributes to the aggregate demand deficiency, making it worse for job creation capacity of the economy<sup>9</sup>.

These stylized facts demonstrate the pro-capital role played by nation states in the meantime. Crotty and Lee (2004) emphasize the importance of the crisis episodes for facilitating the radical neoliberal restructuring which could not be achieved through democratic process under normal economic times. Right after the crisis, the conditions of the IMF are usually accepted, and the initial bail out credit to save international firms arrives. Public debt increases as guarantees to the financial systems and large firms are satisfied and running

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<sup>9</sup> Onaran and Stockhammer (2005) based on a structural VAR model for Korea and Turkey, show that employment reacts strongly to investment and changes in capacity utilization, whereas cost of labor has no effect.

primary surpluses becomes the major duty of nation states. Privatization, mostly in the form of a cheap sell out to foreign capital supplies the additional resources for the country to pay back its ever growing debt. The ideological discourse about the so-called inefficiency of the state is supporting this process and further arresting the social expenditures and state investments. Since governments choose or are obliged to choose not to raise taxes or default on their creditors sufficiently, public deficits end up being paid by labor. In the meantime, public wages are adjusted. Declines in private sector wages follow as the fear of job loss grows due to possible downsizing or bankruptcies. Organized employers push labor unions to accept dramatic wage cuts or compulsory unpaid leaves to avoid job losses. Eventually profits are restored and when the crisis is long past, it is the working masses, who have carried the burden of adjustment. The crisis also creates a hysteresis effect destroying the bargaining power of labor for a long period. Eventually, the growth potential of the economies is deteriorated due to increased fragility, volatility and lower investment, with further adverse effects on labor.

## 4.2 Estimation Method and the Results

In this Section we discuss two questions: 1. What is the effect of the growth regime of neoliberal globalization on distribution? 2. What is happening to employment as the labor costs are decreasing? Has the lower wage share had any effect on unemployment, as the neoclassical theory claims, or is unemployment primarily driven by the goods market conditions à la Keynes?

The core analysis of this study is based on separate estimations for each country, different from previous empirical work cited above, which relies on pooled panel data estimations for sub-groups of countries, based on income groups or regional entities. The estimation technique used is a Seemingly Unrelated Regression (SUR) model, and the coefficients of the explanatory variables as well as constant terms are heterogeneous across countries. The advantage of this methodology is that it allows for cross-country heterogeneity, and is able to analyze empirical regularities within the context of heterogeneity. SUR estimation allows for common international shocks, not captured by the country specific explanatory variables, eg. an international crisis like the Asian crisis, to have effects on the dependent variable via the correlation of the country specific residuals. The SUR model is estimated using estimated contemporaneous correlations between country specific error terms from a first-stage pooled OLS regression<sup>10</sup>.

However, there also are disadvantages of SUR. First is the shortness of the time series limiting the degrees of freedom, and consequently the number of explanatory variables, which can be simultaneously included in the regression. Second, the change in the labor share in one country is explained mainly by the changes in the country specific explanatory variables through time, but the variation across the countries is not incorporated. Thus, the pooled estimation, in spite of its limitations due to the imposition of homogenous coefficients across countries, supplies insightful information in understanding cross country differences in

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<sup>10</sup> In all regressions the estimation period is determined by data limitations. In the case of unbalanced data, the covariance terms are down-weighted by dividing with the maximum of the number of observations. Provided that the number of missing values is asymptotically negligible, this approach yields a consistent estimator of the matrix of contemporaneous correlations that is generally invertible.

distribution. Therefore, after discussing the country specific estimations, i.e. the unrestricted model in detail, we will also discuss the results of a pooled model.

The theoretical background of the basic model estimated here is discussed in Onaran (2005). Here we present the estimations results, where the percentage change in the wage share in manufacturing is estimated as a function of the current and lagged values of growth in manufacturing value added and nominal depreciation rate. This equation to be estimated here is a reduced form derived from a model, where distribution is jointly determined via wage bargaining by workers, price setting by firms, and improvements in productivity. The full model has the nature of a Post-Keynesian conflicting claims model for an open economy, where globalization increases the distributional conflicts. The conflict inflation is extended to an open economy case with imported inputs, where the pass through effect of the depreciation of the local currency also becomes important. The reduced form derived from this model is particularly useful for technical problems related to endogeneity of price and employment in a wage equation. Besides, in the case of employment, there is the additional problem of the shortness of the time series data. Therefore the effect of inflation and unemployment on labor share will only take place implicitly in the estimations.

At the estimation stage we specify the model in difference form. This makes sense intuitively, i.e. the change in the wage share is defined as a function of growth (current and lagged), nominal depreciation rate of the currency (current and lagged), and its own lag. It also is technically reasonable, due to the existence of unit root not only in output and exchange rate, but also in the wage share<sup>11</sup>. This specification is also different from previous research based on panel data, where the time series properties of the variables were not discussed.

Table 2 shows the results of this regression. As the Wald test results at the end of Table 2 indicate, the homogeneity of coefficients is rejected for all explanatory variables. The wage share does not have any cyclical behavior (at conventional levels of significance) with respect to the current value of growth in half of the countries, whereas in two countries (Argentina and Korea) it has a pro-cyclical pattern, and in three (Chile, Malaysia, and Thailand) a counter-cyclical pattern. The lag of growth is positively and statistically significantly related with wage share in five countries (Argentina, Chile, Malaysia, Mexico, and Thailand), and negatively related in Indonesia. When the current and lagged effect of growth is jointly considered, there is a pro-cyclical pattern only in three countries (Argentina, Mexico, and Korea), and a counter-cyclical pattern in Indonesia. The lagged value of the wage share is significant and negative in Chile, positive in Mexico and Turkey, with the degree of persistence ranging between 0.10 and 0.39. Although lagged dependent variable is mostly insignificant, however, it is important in preventing the problem of autocorrelation. We do not try further lags due to problems of degrees of freedom. Nominal depreciation has the expected negative significant effect on wage share in six out of ten countries (Argentina, Chile, Indonesia, Korea, Mexico, Turkey), and in three of these countries (Argentina, Chile, Turkey) the lag of nominal depreciation is positively significant, indicating that a change in the rate of depreciation is the variable that reflects the pass through and unexpected inflation effect of a nominal depreciation. The economic significance of the negative effect of depreciation is ranging from a low level of -0.003 in Argentina, which has experienced many years of hyperinflation, and three digit rates of nominal depreciation, to a high level of -0.22 in the case of Turkey. In Indonesia the lag of nominal depreciation also has a significant negative effect, whereas in Philippines the lag has a positive significant effect.

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<sup>11</sup> Country specific as well as panel unit root test results are available for all variables upon request.

If we interpret these results for a crisis year, the cause of the decline in the wage share during a crisis is explained by mostly the dramatic rates of nominal depreciation (Argentina, Chile, Indonesia, Korea, Mexico, Turkey). The persistence of the decline in the wage share is mostly related to the lagged effect from either growth (Argentina, Chile, Malaysia, Mexico, and Thailand), or past year's decline in the wage share (Mexico, Turkey), or to the lag of nominal depreciation as in the single case of Indonesia.

The result that the decline in economic activity during the year of the crisis not having a direct significant effect, other than in two countries, raises two questions: Is the result robust when nominal depreciation is not included? In the simplest specification with only growth (current and lagged), and lagged wage share, current growth has a positive significant effect in Indonesia, Mexico, and Turkey as well. Thus after controlling for nominal depreciation, the effect of growth is not significant any more in these countries. To put it differently, during a crisis, most of the shock is captured by nominal depreciation.

The second question is related to the stability of the coefficient of growth: Is there a change in the cyclical pattern of distribution in time? There seems to be no statistically significant break in this relation in the post-1980s, as the slope dummy for 1980s for growth is insignificant for all countries<sup>12</sup>. However, there can be a break in the cyclical behavior of labor's share during the crisis periods, which is not reflected in the normal years. To address this question, the normal years vs. recession years are separated in the basic model, which is reported in Table 3<sup>13</sup>. The coefficient of growth during a recession year is positive in Indonesia, Malaysia, Mexico, and Turkey, indicating that wage share is pro-cyclical during a crisis, with the decline in the change in the wage share ranging between 1.4% (Malaysia) to 7.8% (Turkey) for a 1% decline in growth. Moreover, in Indonesia, Malaysia, and Turkey, during normal years wage share is counter-cyclical. Thus wage share decreases in good years, as well as when the economy contracts. The recession intercept dummy, on the other hand, is insignificant in all countries other than in Philippines where it has a negative sign. When the recession dummy is not included, also in Argentina, the wage share is pro-cyclical during a recession, although there is no response during normal years. When the nominal depreciation is not controlled for, wage share is pro-cyclical during a crisis in Korea as well, whereas in Philippines the wage share has a counter-cyclical character during a recession. The results are also robust when the high vs. low growth years are differentiated. These findings are different from Diwan (2001), who performs separate estimations for crisis and non-crisis years for a panel of countries, and argue that labor's share is pro-cyclical during non-crisis years, and counter-cyclical during crisis years. This result might be due to problems associated with pooling a heterogeneous group of countries (even in the sub-sample of poor vs. rich countries), defining the crisis based on nominal depreciation rate greater than 25% rather than recession years, and dividing the time series, rather than comparing the coefficient shifts within the data.

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<sup>12</sup> We also failed to find a significant negative trend in the wage share estimations, which is consistent with the results of Lee and Jayadev (2005) for upper middle income developing countries, but different from Diwan (2001).

<sup>13</sup> The variable "contraction of GDP during a recession" is growth of GDP multiplied by a dummy variable for recession years, which is defined as a decline in manufacturing value added, which in all cases also correspond to a decline in GDP or per capita GDP. Wald tests are carried out for the joint significance of the sum of the coefficient of growth and the slope dummy for the rate of contraction in recession years. An intercept dummy for the recession year is also included.

Clearly aggregate demand deficiency and adverse price shocks associated with currency crises in the 1980s explains the decline in the wage share. In the remaining of the empirical analysis, we stick with the standard specification, where the recession vs. normal years are not differentiated, and we discuss the effects of other macroeconomic variables after controlling for the effect of growth and nominal depreciation. The incorporation of the macro variables that also have an emphasized movement during the crisis years, are expected to capture the particular effects of the economic crisis. These variables will be not be used simultaneously due to degrees of freedom problems, and further data limitations associated with government expenditure, interest payments, real interest rate, and FDI data for some countries.

Since the wage share is estimated in difference form, the macroeconomic variables will also be used in difference form. This is also proper due to the existence of unit root in these variables. Only real interest rate is used in level form, while it is already reflecting the percentage change in the cost of funds. Moreover, real interest rate has no unit root.

The other specification problem is related to the problem of endogeneity in the case of exports, imports and FDI, since changes in the wage share may also effect these variables simultaneously. To avoid this problem, the lags of the change in export, import and FDI ratios are used, In order to supply better instruments for the current value of these variables, two lags are used.

Table 4 shows the results for the basic model with the government final consumption expenditure. The change in the ratio of the government final consumption expenditure to GDP has a positive effect on the change in wage share in seven (Brazil, Chile, Malaysia, Mexico, Philippines, Thailand, Turkey) out of ten countries. A one percentage point increase in governments expenditure/GDP leads to a percentage change in the wage share at rates ranging from 11% (Philippines) to 1.3% (Malaysia). The parameter homogeneity is again rejected. The results are robust when the effect of the interest payments of the government is also controlled for, however, interest payments themselves are mostly insignificant. When the change in wage share is regressed alone on the change in the share of interest payments in total budget expenditures (along with the variables in the basic model), interest payments have a significant negative effect in three countries (Malaysia, Mexico, Thailand), as reported in Table 5. When nominal depreciation and growth are not controlled for, interest payments have a negative effect on the wage share also in Indonesia. Finally, when real interest rate of lending (current and lagged value) is used as the measure of financial liberalization, the current value is always insignificant, and in three countries (Indonesia, Malaysia, Mexico) the lag of real interest rate has a negative effect on the change in the wage share, as can be seen in Table 6a. Only in Chile, the lag of the real interest rate has a positive effect on the wage share, however, this also is the only country where real interest rates declined in the 1980s. The coefficients are statistically significantly different across the countries. When nominal depreciation is excluded, the current value of real interest rate has a negative effect in Argentina as well. The results are robust to the exclusion of depreciation in other countries. However, particularly the low quality of the interest rate data must be kept in mind, and the results must be evaluated cautiously. Indeed, it is well known that the interest rates are usually much higher than reported, and the shortness of the maturity of credits can result in significant differences between the simple vs. compound annual interest rates. Having said these, we make a final analysis for a shorter estimation period, covering only the post-1980s, thus excluding the era of financial regulation with negative real interest rates in many countries. Then the current or the lagged value of the real interest rate has a negative effect in six countries (Argentina, Indonesia, Korea, Malaysia, Mexico, and Turkey, as reported in Table

6b). In sum, even when the negative growth effects of higher interest payments are controlled for, financial liberalization, either through the increase in interest expenditures of the government or a general increase in the real interest rate, has a negative effect on the wage share in seven out of ten countries.

When the effects of openness and liberalization on labor's share are analysed, the results in Table 7a shows that the positive expectations are far from being realized. Export boom in manufacturing has basically had either no, or negative effect on labor's share. When we look at the joint significance of the first and the second lag of the export intensity, in four countries (Brazil, Mexico, Philippines, and Turkey) the increase in the export intensity of the manufacturing industry has a negative effect on the change in the wage share. Exports fail to deliver the expected positive effects even in East Asian countries with a strong industrial policy as well. The import intensity on the other hand has a negative effect only in Argentina and Chile. However in the case of exports and imports, the coefficient homogeneity test cannot be rejected for both lags of exports, as well as the second lag of imports. When the estimation is repeated for the restricted specification with homogenous coefficients, the first lags of both variables are insignificant, but the second lag of the change in export intensity is negative, whereas the second lag of the change in import intensity is positive. The joint significance test for the two lags indicates a negative effect of exports, and no significant effect of imports. These results are reported in Table 7b. Accordingly a stationary increase of one percentage points in export intensity is leading to a decline of 0.18% in the wage share over a period of two years. The results are robust, even when the nominal depreciation or even growth and lagged wage share is not controlled for. Thus, as the results without the growth variable shows, the negative effects of exports dominate the positive growth effects.

In terms of the other promising tool of international liberalization, foreign direct investment (FDI), in six out of ten countries either the first or the second lag of the change in FDI/GDP has a negative effect on the change in the wage share (first lag in Chile, Korea, Mexico; second lag in Indonesia, Mexico, Philippines, Thailand). There is sign of a positive effect only in Brazil and Malaysia. The results are in Table 8. However, the joint significance test indicates a negative effect for four countries (Chile, Indonesia, Mexico, Philippines), and a positive effect for Malaysia. The joint negative effect of a 1 percentage point increase in FDI/GDP for the past two years is ranging from -2.4% (Chile) to 8.9% (Mexico). For the other countries it is not possible to verify either the wage dumping effect or the promised positive effect. The Wald test also indicates that the coefficients of both lags of FDI are heterogeneous across countries. The results are robust when inflow of FDI is used instead of net FDI. When nominal depreciation is not controlled for, the second lag of the change in FDI also has a negative effect in Thailand. Moreover, these results are robust to the exclusion of growth.

The coefficient of depreciation is robust in these models with additional macroeconomic variables in all cases where the additional variable was significant. After controlling for foreign trade and FDI, the coefficient of the current value of nominal depreciation becomes also negative for Thailand. The coefficient of current and lagged growth is robust after controlling for foreign trade, however in the models when government expenditures, interest payments, real interest rate, or FDI are controlled for, growth or lagged growth is not any

more significant in some cases<sup>14</sup>. Thus the cyclical behavior of the wage share must be interpreted cautiously.

Finally, we report pooled estimations with homogeneous coefficients across countries, where we simultaneously include all the macroeconomic variables, as well as the intercept dummy for the recession, and the slope dummy for growth during recession years in Table 9. Although the coefficients cannot be pooled for the variables except for exports and imports, this exercise can be insightful in order to analyze the effects of cross country difference on the change in the wage share. In order to avoid specification complications due to endogeneity problem, the lag of wage share will not be included in these estimations. The estimation method is again SUR. The same lag structure is used as in the country specific estimations for purposes of comparability. In the pooled estimation, the change in the wage share is counter-cyclical during the normal years, but during a recession the joint significance test indicates that there is no cyclicality. When the recession dummies were not included, no cyclical behavior was observed even during the normal years. On the other hand, the recession has an exogenous effect on the wage share in addition to what can be explained by the other variables. The recession intercept dummy is very highly negative and significant: a recession generates an additional 4% decline in the rate of change of the wage share. The lag of growth is significant and positive, which explains some of the persistence in the post-crisis decline in the wage share. The current rate of nominal depreciation is negative, whereas the lag is positive; furthermore the absolute values of the coefficients indicate that the pass through and unexpected inflation effect of a nominal depreciation is reflected in the change in the rate of nominal depreciation. The change in the government final consumption expenditure/GDP has a positive, and the change in the interest payments/total expenditures has a negative significant effect. When the real interest rate is used instead of the interest payments, both the current and lagged values are insignificant. Although interest payments were not significant for most of the countries, we observe that the change in the wage share is lower in countries with a higher increase in interest payments. However, with respect to the real interest rate, the cross country differences are not correlated with the differences in the wage share movements, so we report the results with interest payments only. Both the first and the second lag of the change in export intensity are both negative, and significant; consequently they are also jointly significant and negative. Although both lags of import intensity are insignificant, they are jointly significant and positive. This reflects that imports are complementary goods to labor, and given the import dependency of the manufacturing industry, higher imports improve growth, productivity and wage share. The result in the case of the change in FDI/GDP points at a negative effect, but only at 14% level of significance. These results are robust to the exclusion of recession intercept and slope dummies. Finally to check for robustness, we estimated a pooled model for the change in the wage share regressed on the

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<sup>14</sup> Among the countries where the added variable was significant, with government expenditures in Chile and Thailand current growth; with interest payments in Thailand current and lagged growth; with real interest rate in Chile both current and lagged growth, in Malaysia lagged growth, in Thailand current growth; with FDI in Korea current growth, in Chile, Malaysia, Mexico, Thailand lagged growth become insignificant. However, additionally, in Brazil lagged growth becomes positively significant, and current growth is negatively significant in models with interest payments, or FDI. In Mexico with real interest rate current growth has a positive and significant effect, but the lagged growth loses significance.



levels of the government expenditure/GDP, interest payments/expenditures, export intensity, and import intensity, controlled for growth and nominal depreciation (both current and lag). When two lags are used, the results are comparable to the estimations with difference forms for government expenditures, interest payments, and exports, but imports and FDI are highly insignificant in terms of the joint effect of lags. When three lags are used, the joint effect of exports are also insignificant.

In comparison to previous work, the results from the pooled estimations about the effect of nominal depreciation, and government expenditures are consistent with Lee and Jayadev (2005), Diwan (2001) and Harrison (2002). Regarding foreign trade, these results are also in line with previous research, which find negative or no effect of trade (Rodrik, 1998a; Harrison, 2002; Lee and Jayadev, 2005), although more detailed in terms the decomposition of exports and imports, and with an insight about cross country differences. The cross country differences turn out to be particularly important in the case of FDI. The results here are not completely corresponding to the significant negative effect in Harrison (2002), which might be related to the use of panel data, as well as problems with endogeneity. The negative effect can simply be reflecting an inverse causation, such that FDI goes to countries with lower labor's share.

Clearly pooling restrictions limit the explanatory power of the models at a country specific level. On the other hand, unfortunately in the country specific estimations, the shortness of the time series data make it impossible to try combinations of these variables, leading to a usually low explanatory power of the estimations. Besides the low quality of the wage share data pose additional problems. In most cases the wage data is based on firm level survey data, and there are doubts that firms under-report the wage levels in order to avoid part of the employment taxes. Although the trends reflect part of the story, this decreases the quality of the estimations. Nevertheless, the reasonably high  $R^2$  values indicate that although globalization has specific effects that differ across countries, a combination of the variables discussed above explain the decline in the wage share in these countries. Particularly in the models with the lowest  $R^2$  values for Argentina, Brazil, Thailand, and Philippines a combination of variables improves the explanatory power significantly. In the case of Argentina, the highest  $R^2$  value, which could be obtained was 0.34 in the model with interest payments, however when the government expenses and interest payments are used together, these values increase upto 0.45 for Argentina, to 0.39 for Brazil, and to 0.43 in Thailand. The model with FDI has the highest explanatory power for Chile (0.61), and Korea (0.70); the model with the real interest rate leads the highest explanatory power for Indonesia (0.60), followed by the model with FDI. For Malaysia, Mexico and Turkey the two models with the highest explanatory power were the models with recession dummies and with government expenditures, with  $R^2$  values ranging between 0.55 and 0.64. Obviously the change in the bargaining power of labor through the deregulation in the labor market, the weakening of the trade unions, and the general decline in the strength of the political organizations of labor remain to be the significant exogenous effects, which are not covered by the macroeconomic factors discussed here.

Finally, as high unemployment rates suppress real wages, the decline in the share of wage income contributes to the aggregate demand deficiency, making it worse for job creation capacity of the economy. When the change in unemployment rate is regressed on GDP growth and the first lag of percentage change in the wage share for the period of 1980-2003<sup>15</sup>,

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<sup>15</sup> Due to the existence of unit root in unemployment rates and wage share, we use them in first difference form. Moreover, to avoid the problem of endogeneity, the first lag of the change in wage share is used, since changes

in 8 out of ten countries growth has a significant effect in the expected direction on unemployment (except for Philippines and Turkey), whereas the change in the wage share has no significant positive effect (i.e. an increase in the wage share resulting in an increase in unemployment rate) in any of the countries. The estimation results are in Table 10. Moreover, in Korea, wage share has a significant negative effect on unemployment. So as opposed to what neoclassical theory claims, the lower wage share has a statistically much less reliable effect on unemployment, and unemployment is primarily driven by the goods market conditions, as suggested by Keynesian economics<sup>16</sup>. A change in the wage share has no positive effect on unemployment.

## 5. How to get out of the dead end road?

The durability of the neoliberal paradigm is obviously in doubt. The Washington-consensus is now a “damaged brand”, as Naim, the former Venezuelan trade minister and the editor of Foreign Policy call it (from the Economist, 2003b). A book edited by Williamson –the author of the original article on the Washington-consensus, outlining a 10-point list for a reform agenda- and Kuczynski, titled “After the Washington Consensus: Restarting Growth and Reform in Latin America”, published in 2003, is now making reference to selective capital controls over inflows, avoiding overvaluation of the currency, and to the need to improve income distribution, although cautiously. Yet, most of the emphasis still remains over completing the “first generation” reforms, particularly in the labor market. This shows that mainstream economics has not much more to offer.

The working people of the developing countries should resist the pressures of the IMF, the international headquarters of capital and their domestic capitalists to implement recipes that make their economies vulnerable to crisis, and should look for means of determining their own destiny. The slogan of “TINA” (There is no alternative) is worn out, but there still is some time until majority of the population in those countries can unite and say: “Another world is possible.” This section discusses a spectrum of policy tools for preparing the ground for building an alternative economy for people and not for profits. These policies cover financial market regulations at domestic and international level, labor market regulations, industrial policy, international trade regime, fiscal policy and debt “management”.

A lot is said about financial market regulation, when alternative policies are discussed. At the national level, financial market regulations range from interest ceilings to capital adequacy requirements, margin requirements on stock trading, and requirements limiting the composition of loans (Pollin, 2002; Akyuz, 2000; Crotty and Epstein, 1999). At the international level, the most readily available, and widely discussed tool for achieving a stable global economy is capital controls. The case of China and India, which were little effected by the Asian crisis thanks to capital controls, which remain much effective, speak for such an agenda. Malaysia reimposed wide-ranging capital controls in 1998, allowing interest rates to fall. Even IMF officials argue that capital controls may be the least damaging way out of the crisis. The devoted defender of neoliberalism, the Economist, has a special survey of global finance, prepared by Clive Cook pointing at the increased volatility in financial markets and calls for the need for regulations (Cook, 2003). Even some mainstream economists like Krugman argue in favor of capital controls. The Tobin tax on foreign exchange transactions

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in unemployment rate may also affect the wage share. In this and the following regressions that will be reported below, the estimation period is determined by data limitations, unless otherwise stated.

<sup>16</sup> Onaran and Stockhammer (2004) based on a structural VAR model for Korea and Turkey, show that employment react strongly to investment and changes in capacity utilization, whereas cost of labor has no effect.

are usually seen as an efficient way of raising the costs of short-term speculative trading, while not affecting much the long term capital flows. Obviously the scope of capital controls is rather limited in the suggestions of the mainstream camp. Among the radical economists, Crotty and Epstein (1999) and Pollin (2000) suggest the extension of such a tax to include all financial transactions via a so-called Keynes tax. As far as other possible international arrangements are concerned, in the case of developing countries, there has been a range of suggestions from debt stand stills to orderly debt work-outs; however during the discussions after the Asian crisis there has been wide spread resistance against such measures from the US, which is representing the headquarters of multi-nationals and finance giants (Akyyuz, 2000). Obviously a similar resistance is shared by other G7 states, when the credits given by their domestic banks are concerned, such as in the case of Argentina.

Obviously these regulations would supply a wide area of maneuver for governments to direct macroeconomic policy towards employment generating policies as well as welfare state or redistribution programs. However, at the national level, it is not clear to what extent this will put financial system in a subordinate position with respect to the priorities of a well defined development plan. The role of the market rules and the scope of national financial institutions are also open questions. Little is said about the property structure of the financial system, when financial regulations are discussed. A policy of nationalization of the financial system is vital for an efficient distribution of resources with respect to the priorities of an industrial strategy. This alternative line of financial policy also has to take a clear position against the so-called central bank independence in order to have full control over the policy tools to mobilize resources for an egalitarian macro policy. Unfortunately, disempowered by the attack of international finance, even the new left government of Brazil has already passed the law for Central Bank independence in spite of the critiques from within the government party (Machado, 2003). Indeed the Worker's Party had shifted its policy stance to accommodate the demands of the financial sector even before the elections.

An alternative financial policy also requires international coordination beyond capital controls. Crotty and Dymiski (2000) rightly emphasize that capital controls are not enough for creating a global economic environment for long term, sustainable, egalitarian, high-employment growth in both the North and the South. They emphasize the need to construct global institutions that would support progressive national programs. Eatwell and Taylor (2000) suggest a new Global Financial Authority. Some others, like Arestis and Glickman (2002) suggest that a revamped IMF/World Bank could be the counterpart of a "big government" or "the big bank" in an open economy. However, clearly international institutions, sound supervision and conventional prudential measures may only help to alleviate fragility rather than eliminating it.

On the real side of the economy an alternative macroeconomic policy framework has to target employment, redistribution of income in favor of labor and a decent supply of social services. A public investment-led expansion is the core tool of such a strategy. This would not only generate demand, but would also promote longer-term productivity growth in critical industries. This strategy is in striking contrast to the existing mania of inflation targeting.

The international dimension of such a policy requires a selective trade policy, which would serve the interests of a strategic industrial policy based on priorities. There needs to be a new line for promoting exports via productive investments. Such a policy of export promotion could also make international competitiveness compatible with an expanding domestic market thanks to high wages and employment. The other important international component is to

found new global institutions with an aim to coordinate and synchronize expansion as an alternative to beggar my neighbor policies. Pollin (2002) discusses that such an international coordination would also help to manage the inflationary effects and import leakages associated with expansionary employment targeting macroeconomic policy, and would create a foreign demand multiplier effect for all countries involved. The international coordination is also important in building a new tax policy, to prevent the race to the bottom to attract or keep investment. The synchronization of capital and corporate taxation is a complementary suggestion to the international taxation of financial flows, regarding the real side of the international capital movements.

There is also need for a totally new line of labor market policies, in order to enable working people to benefit from growth, a revitalization of labor market regulations, the establishment of a decent minimum standard for a living wage, improving the workplace conditions and the right to organize are obviously necessary. Also in the short run, in order to create new jobs the shortening of the working hours without deterioration in wages is required. Unfortunately less focus is made on this issue<sup>17</sup>. This is vital, because not only the demand side macroeconomic policies require a certain time lag to be effective, but also it improves the working conditions, and last but not the least creates the time needed for workers to participate in the decision making process and political life.

Obviously, this alternative line of macroeconomic policy requires a full mobilization of the resources of the society to generate more jobs under better conditions. However, building an alternative is impossible without radically solving the problem of domestic and international debt burden, which is channeling the productive resources and wealth created by working masses to the domestic and international financial headquarters. The governments, which avoid taxing capital found themselves indebted, and as the international debt mountains, they refer to domestic debt to finance their Ponzi scheme. In the meantime, in some other countries, the private sector's international debt fuels growth, and when credibility of the firms collapses, the governments are obliged to publicize the debt. As far as the international debt is concerned, indeed developing countries had already paid a significant amount of the international debt before the hike of the interest rates in 1980. However, today developing countries are still three times more indebted than in 1982, because of the high amount of borrowing to pay back the high interest rates through the 1980s (Toussaint, 1999). In the meantime the debt has changed composition with a shortening of maturity and with a shift of the source towards international banks from states, which changed the bargaining power at the expense of the indebted countries. This shift becomes clearer when the consequences of the debt crises in the 1980s are compared to the debt crises of 1930s in Latin America, when the numerical importance of individual bond holders with little bargaining power made extensive defaults possible, which were followed by active industrial policies (Thorp, 1998). The so-called debt-restructuring and conditionality credit operation of the 1980s has been more fiercely repeated in East Asia, resulting in the imposition of sharper conditions, such as faster privatization, massive labor shedding, and a striking withdrawal of national sovereignty. Now the World Bank is trying to reshape its debt policy against the rise in critiques and struggle. However, the aim is to make sure of the continuity of the interest payment capacity of the most indebted countries, while at the same time keeping them within the borders of the system. More substantial but still temporary solutions have been suggested particularly during the debates after the Asian crisis, like orderly debt workouts or stand-stills to restructure the

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<sup>17</sup> See Bosch and Lehndorff (2001) for a review of the collective working time reductions in Europe over the past 20 years. They report that most empirical studies show positive employment effects, but the institutional conditions under which the working time reductions occur are of particular significance.

maturity of the debt based on the unilateral decision of a country, where currency is under fire, and even the IMF is considering a bankruptcy regulation for indebted countries<sup>18</sup>. On the other hand, the recent example of Argentina demonstrates that the IMF can be pushed to the defensive side when it realizes that a country can be an example for all others by simply defaulting on debt. The popular pressure, as well as the national conglomerates troubled with high debt service in Argentina has pushed the government to resist the IMF, whereas the lack of such a pressure in Turkey has made it the favorite example of Anne Krueger for the case of a country which pays its debt regularly while it still continues to grow –although in reality whose population manages to survive. However, clearly under today’s balance of power relations, a unilateral default organized by a cartel of indebted countries, rather than a case by case bargaining to each country, could make a more permanent solution to the debt problem possible. The solution of international debt must also be accompanied by a solution to domestic debt. A progressive wealth tax over the ownership of government debt instruments would provide the opportunity to default on a significant part of the debt held by institutional investors, while only taxing the individual savings<sup>19</sup>.

Obviously any policy suggestion requires a clarification of the alliances which are required for the persuasion of this agenda. The possible alliances in theory include everyone who is hurt by neoliberal policies, ranging from workers to domestic oriented capital. But the big question is whether there exists such a group of capitalists, whose interests would require an alliance with workers? Or would they prefer to support the big international capitalists and their domestic partners in terms of anti-labor policies, while provoking a nationalist and regressive rebellion via misdirecting and exploiting the discontent of the poor? Apparently the pro-labor line of the agenda we have outlined above will quite from the beginning conflict with those of the inner-oriented circles of small scale capitalists. A good example is the right wing conservative government of Turkey, who owes its power to dissatisfied workers, as well as the unemployed immigrants in the cities, has been combining an anti-labor stance with an outward oriented policy in terms of foreign policy to meet the needs of the large scale capitalists, and in the meantime has been serving the purposes of the redistributive struggle of the small scale capitalists

In terms of the institutional setting to achieve a more egalitarian economy, Rodrik (1998b) points at the need to develop institutions that will mediate social conflicts, and participatory and democratic institutions, and social insurance as components of a strategy to enhance resilience to volatility in the external environment. But can such institutions stably exist under global capitalism? Or could developing countries surrendered by the alliance of domestic and international capital build these institutions, which would limit their right to exploit, without major fights? Can one save capitalism from itself, as Keynes very much would like to do?

Given the power of global capitalists, the national consensus specific to the unique historical conditions of the Golden Age cannot be repeated once again, not under new national or international institutions. It has to be clarified that the route of the pro-labor demands will soon start threatening the limits of the capitalist system of production based on private property rights. Thus the cross roads through the struggle for these demands will be reached sooner or later, and the evolution of the society will be determined by not only the domestic balance of power structures but also by international conditions. The only possible alliance for

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<sup>18</sup> See Akyuz (2000) for a review of the discussions and controversies over the debate on debt restructuring within the context of capital controls.

<sup>19</sup> This proposal had taken place in the macroeconomic policy suggestions of UNCTAD for EU member states in 1995.

the macroeconomic policy agenda outlined above is among different sectors of the segments of working class, including the unemployed. The people of Argentina showed a good example on self-organization, ranging from the self-management of workers in bankrupt factories to solidarity networks between the unemployed and the neighborhood and factory committees, which have flourished in the middle of a violent crisis (Cockcroft, 2003). These experiences are showing that changing the balance of power relations for creating an alternative is not impossible, but hard. For example, the Argentinean experience has failed to transform itself in the short run to a struggle for power (Lucita, 2003); neighborhood committees lost importance in the meantime; the number of self-managed firms remained limited; and indeed the pressures from the national conglomerates have also been important in shaping a pro-industrial policy framework instead of a priority of international debt servicing. Nevertheless, the position of Argentina is still in striking contrast to the neighboring country, Brazil, the left wing workers' party with a strong past in grass-roots struggle, is isolated and surrounded by the threat of international finance. In a conflictual manner, as Pollin (2002) reports from his observations in Bolivia, especially progressive governments can become disoriented in their approach to policy due to what they perceive as the constraints imposed by globalization. This shows that, although nation state is an effective means of pushing for reforms, international coordination and synchronization is absolutely vital for a permanent change. The effort of Brazil to find ways of revitalizing MERCOSUR as opposed to ALCA is an inspiring way to hint at possibilities. International coordination among the political organizations, trade unions and NGOs across the DCs as well as between the ACCs and DCs can generate at least create a larger area of maneuver for a decisive power or a strong popular movement. The initial examples of building up of such a front exist in the numerous international organizations and actions like the "50 years enough" campaigns against the Bretton Woods organizations, ATTAC, the World Social Forum and world wide protests, which have gained a regularity.

The forces, who could struggle and open the way for reforms towards such an agenda is limited with social actors, who would also benefit from them. Obviously an agenda that threatens the property rights, and extends the rights of the labor, can only get support from the working people, and the unemployed. The complicated social structure of alliances within this front is beyond the scope of this paper. But one last emphasis is in place: While building a domestic front is vital, in the era of neoliberal globalization, international alliances and synchronized action will play a critical role. The credibility of the neoliberal model is already under question; now it is the time to convince ourselves about the existence and applicability of the alternatives, even and particularly when they threat the continuity of this mode of production.

## **6. Conclusion**

This paper has discussed the effect of neoliberal globalization on labor in developing countries, based on a sample of ten counties. The increase in the mobility of capital and the stagnation in aggregate demand have been the two important features of this era, which shifted the balance of power relations in favor of capital in a global sense, while also increasing and globalizing the intrinsic instability of the capitalist economy. As the government policies are also determined in line with the interests of the dominant economic power, the shift towards tight fiscal and monetary policies have enhanced the anti-labor stance of the era. In the meantime, the decrease in the purchasing power of labor is generating the vicious cycle of deficient aggregate demand, low growth, low unemployment. Since an indispensable part of neoliberal globalization has been the increased frequency of crises, this study has a particular emphasis on distributional aspects of the crisis, especially since the

1990s following the liberalization of capital flows. Crises are episodes where the distributional struggle intensifies, and the pro-capital balance of power relations that have shaped the era of neoliberal globalization becomes particularly dominant. Thus the outcomes of a crisis are not class neutral.

The crises of the post-1990s have a clear and long lasting effect in all countries. In almost all countries GDP starts to recover a year after the crisis and restores its pre-crisis level in a few years, however the fall in labor's share is much more consistent. Also the percentage fall in the share of labor by far exceeds the rate of decline in economic activity even during the crisis. The fall continues for mostly 2 or even 3 years, with the cumulative rates of decline varying from 18.7% to 6.8%. In most countries labor's share stay lower since the crisis. Interestingly enough, although labor's share does not have a clear cyclical pattern in eight out of ten countries, it is pro-cyclical during a crisis in four of these countries. Thus although labor's share does not respond to growth in good years, it decreases as the economy contracts. In two other countries, labor's share is always pro-cyclical, thus, also effected negatively during recessions.

However, the decline in labor costs have not helped to restore employment. Since the crisis of 1997 and 2000s, in no country the unemployment rates have returned to the pre-shock levels as of now. As high unemployment rates suppress real wages, the decline in the share of wage income contributes to the aggregate demand deficiency, making it worse for the job creation capacity of the economy.

Neoliberal policies have so far failed to deliver their promises in terms of creating jobs and a fair return to labor. This study shows that, in all of the ten countries, as opposed to what neoclassical theory claims, the lower wage share has had no positive effect on unemployment, and unemployment is primarily driven by the goods market conditions, as suggested by Keynesian economics. Aggregate demand deficiency explains the decline in the wage share as well as the increase in unemployment.

This study also demonstrates how the nation states intervene in the process of distributional struggle in the era of neoliberal globalization, as well as during the crisis. The fiscal contraction, and financialization have intensified the downward pressure over the wage share in the majority of the countries. As the share of wages in government expenses contract, the share of interest payments increases in most countries. So as the demands of international and domestic borrowers are to be met to increasing extents, wages and social expenditures and investment have to take their shares of budget cuts. This eventually also leads to a decline in the labor's share in the rest of the economy in many countries. The exchange rate policy also has had an important effect on the share of labor in the economy. Be it due to the official devaluations of the early stages of liberalization or the market made depreciations after financial crises, there is a clear trade-off between rate of depreciation and the wage share. Right after the crisis, the pro-capital stance of budgetary decisions becomes even more emphasized. At best not daring to upset the domestic and international capitalists, or mostly being in close ties to the big corporations via either ownership or financing of their election campaigns the politicians in power are taking active steps for a pro-capital redistribution of income via taxation and expenditure policies. The need to run high primary surpluses is being presented as the objective truth, although it in reality is just the obvious tool to continue the payments of the untouchable interest payments of debt. Usually the discourse to legitimize all these measures is to expand the fear that conditions would get even worse if they are not implemented.

The expected positive effects of openness and liberalization on labor's share have also not been realized. Quite on the contrary, exports have either resulted in negative bargaining pressures over labor or have been outweighed by the effects of nominal depreciations. In the case of FDI, there is either negative or no significant effect.

The imposition of the idea that "there is no alternative" is becoming less and less convincing for the peoples of the developing countries. An alternative redistributive macroeconomic policy framework, including financial market regulations, an industrial policy based on public investment, labor market regulations and shortening of the working hours without a cut in pay, a selective international trade policy, cancellation of international debt and a radical taxation on domestic debt, can prepare the ground for building an alternative economy for people and not for profits.

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**Table 1: Stylized facts**

		ARGENTINA	BRAZIL	CHILE	INDONESIA	KOREA	MALAYSIA	MEXICO	PHILIPPINES	THAILAND	TURKEY	
		Growth in manufacturing value added %										
1970-79	Mean	1.91	9.55	1.37	12.82	17.92	11.43	6.44	6.55	11.46	6.11	
	Volatility	3.32	0.47	8.22	0.34	0.32	0.49	0.45	0.50	0.35	0.93	
1980-2003	Mean	0.23	0.96	3.58	9.50	8.82	9.13	2.81	2.15	8.23	5.34	
	Volatility	35.06	6.20	1.77	0.77	0.75	0.87	1.82	2.04	0.81	1.15	
		Wage share in manufacturing value added										
1970-79	Mean	25.07	30.49	42.85	24.28	34.91	27.51	55.22	11.44	20.27	30.71	
	Volatility	0.23	0.09	0.28	0.07	0.09	0.06	0.04	0.21	0.14	0.17	
1980-2003	Mean	16.54	29.47	34.59	20.79	41.83	26.94	34.06	13.32	31.16	20.29	
	Volatility	0.21	0.10	0.10	0.12	0.08	0.09	0.20	0.15	0.16	0.21	
		Export/value added in manufacturing industry %										
1970-79	Mean	4.74	5.33	5.11	3.07	24.95	31.79	6.10	8.15	12.02	7.70	
	Volatility	0.48	0.30	0.70	0.50	0.26	0.27	0.14	0.41	0.48	0.28	
1980-2003	Mean	12.39	20.92	17.18	43.75	35.16	164.21	58.78	67.24	69.53	47.43	
	Volatility	0.63	0.63	0.51	0.62	0.17	0.51	0.74	1.00	0.52	0.37	
		Import/value added in manufacturing industry %										
1970-79	Mean	12.37	17.59	39.22	97.19	31.09	128.21	24.34	48.44	72.45	45.11	
	Volatility	0.26	0.26	0.43	0.20	0.16	0.12	0.11	0.11	0.08	0.18	
1980-2003	Mean	27.67	22.44	93.58	63.47	34.11	202.31	75.39	85.45	92.49	70.49	
	Volatility	0.50	0.82	0.28	0.24	0.12	0.22	0.51	0.57	0.23	0.32	
		Nominal depreciation rate %(percentage increase in the exchange rate, measured as local currency/US dollar)										
1970-79	Mean	130.43	21.45	210.49	7.27	5.53	-3.17	7.08	7.44	-0.18	14.07	
	Volatility	1.53	0.64	1.34	1.73	1.29	-1.67	2.21	2.12	-2.85	1.06	
1980-2003	Mean	370.35	438.83	13.90	16.80	4.53	2.63	35.78	9.38	3.35	60.35	
	Volatility	2.62	1.57	1.16	2.97	2.87	3.32	1.33	1.44	2.71	0.61	
		FDI/GDP (net) %										
1970-79	Mean	0.26	1.13	-0.19	0.77	-	2.96	0.80	0.30	0.61	0.17	
	Volatility	0.53	0.20	-7.10	0.82	-	0.36	0.15	1.54	0.55	0.66	
1980-2003	Mean	1.58	1.58	3.69	0.32	0.49	4.14	1.85	1.21	1.81	0.43	
	Volatility	1.11	1.07	0.76	4.22	1.12	0.52	0.52	0.81	0.83	0.99	
		Real interest rate of lending (the rate charged by banks on loans to prime customers, deflated by the GDP deflator)										
1970-79	Mean	-13.55	-7.39	19.06	-3.64	-0.44	0.48	-5.30	2.14	4.00	-15.52	
	Volatility	-0.23	-0.91	0.44	-3.32	-10.51	12.96	-0.94	0.92	0.53	-0.67	
1980-2003	Mean	21.35	76.46	12.88	7.74	3.81	5.50	1.45	5.56	8.07	13.35	
	Volatility	4.34	1.53	0.89	1.23	0.98	0.79	6.44	1.00	0.40	1.02	
		Interest payments/budget expenditures %										
1970-79	Mean	-	-	4.87	3.13	1.54	10.47	9.40	4.48	7.66	2.79	
	Volatility	-	-	0.83	0.47	0.35	0.11	0.15	0.35	0.13	0.14	
1980-2003	Mean	12.47	30.36	4.62	11.29	2.19	15.78	26.37	22.73	8.37	19.83	
	Volatility	0.38	0.63	0.64	0.40	0.37	0.34	0.64	0.37	0.64	0.71	
		Government final consumption expenditure/GDP %										
1970-79	Mean	14.82	10.33	14.45	9.01	9.93	15.79	9.57	9.96	10.79	10.84	
	Volatility	0.07	0.06	0.08	0.12	0.09	0.09	0.15	0.06	0.07	0.06	
1980-2003	Mean	13.42	15.30	11.49	8.84	10.52	13.59	10.06	10.30	11.12	10.99	
	Volatility	0.17	0.28	0.14	0.18	0.06	0.16	0.12	0.19	0.12	0.19	

Notes

FDI data for Korea: 1980-2003

Government's current expenditures data for Argentina: 1978-2003

Interest expenditure data for Argentina:1981-2003; Brazil: 1980-2003; Chile:1974-2003; Malaysia, Mexico, Philippines, Thailand: 1972-2003

When lending rate was not available, the real interest rate data is the highest of the interbank or saving deposit rate.

The coverage of the interest rate data is for Argentina:1977-2003; Chile:1977-2003; Mexico: 1975-2003; Philippines, Thailand: 1976-2003; Turkey: 1973-2003

**Table 2**

Estimation Method: Seemingly Unrelated Regression

Sample: 1972 2003

Included observations: 32

Total system (balanced) observations 320

Dependent variable: percentage change in the wage share in manufacturing (dws)

	ARGENTINA		BRAZIL		CHILE		INDONESIA		KOREA		MALAYSIA		MEXICO		PHILIPPINES		THAILAND		TURKEY			
	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.		
constant	-3.460	0.168	-0.577	0.720	-0.105	0.971	11.029	0.000	-0.483	0.708	0.281	0.859	-1.551	0.416	-5.544	0.370	3.187	0.189	5.780	0.274		
growth t	0.465	0.039	-0.185	0.267	-0.482	0.077	-0.172	0.363	0.157	0.267	0.095	-0.284	0.002	0.209	0.363	0.411	0.682	0.411	-0.333	0.081	-0.539	0.146
growth t-1	0.723	0.002	0.219	0.156	0.513	0.053	-0.581	0.002	0.047	0.595	0.177	0.081	0.376	0.113	0.303	0.644	0.317	0.069	0.303	0.383		
dws t-1	-0.045	0.701	0.069	0.619	-0.394	0.020	-0.144	0.291	0.126	0.310	0.065	0.628	0.280	0.075	-0.121	0.273	-0.036	0.807	0.393	0.013		
nominal depreciation t	-0.003	0.101	0.000	0.886	-0.069	0.001	-0.132	0.000	-0.172	0.002	0.045	0.576	-0.102	0.002	0.128	0.578	-0.200	0.141	-0.216	0.000		
nominal depreciation t-1	0.008	0.000	-0.001	0.653	0.068	0.000	-0.065	0.048	-0.082	0.186	-0.042	0.622	0.044	0.206	0.433	0.099	-0.032	0.803	0.112	0.096		
R2	0.239		0.057		0.351		0.503		0.501		0.365		0.467		-0.015		0.086		0.257			
Wald tests	Probability of Chi-square test stat.																					
homogeneity of the coefficient of growth t across countries	0.004																					
homogeneity of the coefficient of growth t-1 across countries	0.001																					
homogeneity of the coefficient of dws t-1 across countries	0.011																					
homogeneity of the coefficient of nominal depreciation t across countries	0.000																					
homogeneity of the coefficient of nominal depreciation t-1 across countries	0.000																					
Country specific tests	Probability of Chi-square test stat.																					
growth t + growth t-1=0	Probability of Chi-square test stat.																					
ARGENTINA	0.000																					
BRAZIL	0.856																					
CHILE	0.938																					
INDONESIA	0.000																					
KOREA	0.020																					
MALAYSIA	0.452																					
MEXICO	0.032																					
PHILIPPINES	0.239																					
THAILAND	0.941																					
TURKEY	0.591																					

**Table 3**

Estimation Method: Seemingly Unrelated Regression

Sample: 1972 2003

Included observations: 32

Total system (balanced) observations 320

Dependent variable: percentage change in the wage share in manufacturing (dws)

	ARGENTINA		BRAZIL		CHILE		INDONESIA		KOREA		MALAYSIA		MEXICO		PHILIPPINES		THAILAND		TURKEY	
	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.
constant	0.833	0.885	-1.162	0.637	2.049	0.638	9.121	0.000	-1.294	0.348	3.971	0.015	-4.274	0.206	-0.080	0.991	3.895	0.134	13.691	0.046
growth t	-0.043	0.951	-0.250	0.366	-1.132	0.088	-0.334	0.093	0.176	0.111	-0.632	0.000	0.354	0.448	-0.456	0.652	-0.373	0.059	-1.419	0.016
growth*recession dummy	0.789	0.438	-0.023	0.976	1.324	0.101	5.041	0.003	0.762	0.274	2.047	0.000	1.626	0.084	-1.590	0.403	0.132	0.852	9.260	0.033
recession dummy	-2.115	0.788	0.438	0.927	4.407	0.507	8.390	0.119	3.908	0.253	2.379	0.574	7.306	0.106	-17.408	0.065	-3.034	0.506	41.284	0.154
growth t-1	0.587	0.039	0.339	0.079	0.689	0.009	-0.427	0.011	0.081	0.421	0.240	0.005	0.574	0.028	0.497	0.469	0.277	0.153	0.340	0.324
dws t-1	-0.017	0.891	-0.012	0.936	-0.420	0.022	-0.124	0.301	0.157	0.295	0.003	0.983	0.249	0.133	-0.021	0.865	-0.019	0.901	0.381	0.012
nominal depreciation	-0.003	0.092	0.000	0.920	-0.080	0.001	0.046	0.554	-0.155	0.021	0.338	0.001	-0.079	0.016	0.142	0.617	-0.127	0.426	-0.223	0.000
nominal depreciation t-1	0.007	0.001	0.000	0.927	0.082	0.000	-0.028	0.344	-0.068	0.303	-0.006	0.935	0.053	0.170	0.363	0.251	-0.025	0.880	0.113	0.080
R2	0.257		0.059		0.367		0.649		0.538		0.581		0.545		0.004		0.126		0.377	0.377

Wald tests

Probability of Chi-square test stat.

homogeneity of the coefficient of growth t across countries	0.003
homogeneity of the coefficient of growth t-1 across countries	0.001
homogeneity of the coefficient of dws t-1 across countries	0.011
homogeneity of the coefficient of nominal depreciation t across countries	0.000
homogeneity of the coefficient of nominal depreciation t-1 across countries	0.000

Country specific tests

growth+growth\*recession d<sub>t</sub>Probability of Chi-square test stat.

ARGENTINA	0.3274
BRAZIL	0.6885
CHILE	0.6326
INDONESIA	0.0029
KOREA	0.1629
MALAYSIA	0.0101
MEXICO	0.0242
PHILIPPINES	0.2782
THAILAND	0.7367
TURKEY	0.0644

**Table 4**

Estimation Method: Seemingly Unrelated Regression

Sample: 1972 2003

Included observations: 32

Total system (unbalanced) observations 313

Dependent variable: percentage change in the wage share in manufacturing (dws)

	ARGENTINA		BRAZIL		CHILE		INDONESIA		KOREA		MALAYSIA		MEXICO		PHILIPPINES		THAILAND		TURKEY	
	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.
constant	-2.097	0.426	-1.615	0.309	-1.427	0.606	11.430	0.000	-0.040	0.976	-0.146	0.923	-3.851	0.034	-6.083	0.394	0.165	0.944	-0.140	0.974
growth t	0.477	0.100	-0.093	0.581	-0.347	0.191	-0.240	0.261	0.141	0.183	-0.206	0.037	0.194	0.388	0.602	0.546	0.034	0.867	-0.051	0.866
growth t-1	0.618	0.040	0.315	0.050	0.605	0.019	-0.537	0.009	0.027	0.774	0.148	0.125	0.391	0.065	-0.137	0.860	0.320	0.037	0.448	0.116
dws t-1	-0.118	0.452	0.068	0.622	-0.263	0.120	-0.117	0.433	0.146	0.252	0.017	0.892	0.279	0.045	-0.084	0.501	-0.175	0.235	0.071	0.591
nominal depreciation t	-0.004	0.110	-0.002	0.470	-0.067	0.001	-0.147	0.000	-0.135	0.017	0.111	0.179	-0.059	0.044	0.272	0.359	-0.030	0.810	-0.146	0.002
nominal depreciation t-1	0.008	0.001	0.001	0.513	0.077	0.000	-0.059	0.098	-0.115	0.069	-0.082	0.314	0.052	0.095	0.471	0.128	-0.114	0.317	0.077	0.157
d(government final consumption expenditure/GDP)	-1.165	0.266	1.431	0.038	2.687	0.101	-1.082	0.389	-1.093	0.265	1.345	0.002	5.449	0.000	11.813	0.008	4.583	0.000	8.684	0.000
R2	0.318		0.111		0.375		0.530		0.504		0.478		0.643		0.013		0.279		0.548	
Wald tests	Probability of Chi-square test stat.																			
homogeneity of the coefficient of growth t across countries	0.002																			
homogeneity of the coefficient of growth t-1 across countries	0.001																			
homogeneity of the coefficient of dws t-1 across countries	0.003																			
homogeneity of the coefficient of nominal depreciation t across countries	0.000																			
homogeneity of the coefficient of nominal depreciation t-1 across countries	0.000																			
homogeneity of the coefficient of d(government final consumption expenditure/GDP) across countries	0.000																			

**Table 5**

Estimation Method: Seemingly Unrelated Regression

Sample: 1972 2003

Included observations: 32

Total system (unbalanced) observations 293

Dependent variable: percentage change in the wage share in manufacturing (dws)

	ARGENTINA		BRAZIL		CHILE		INDONESIA		KOREA		MALAYSIA		MEXICO		PHILIPPINES		THAILAND		TURKEY	
	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.
constant	-3.005	0.288	-2.387	0.150	-0.475	0.716	13.609	0.000	-0.798	0.569	0.123	0.936	-1.594	0.406	-1.159	0.877	5.392	0.028	5.169	0.345
growth t	0.197	0.547	-0.393	0.081	-0.064	0.683	-0.190	0.373	0.165	0.114	-0.272	0.002	0.081	0.757	0.518	0.620	-0.203	0.283	-0.527	0.144
growth t-1	0.585	0.074	0.525	0.007	-0.032	0.827	-0.733	0.001	0.022	0.825	0.210	0.039	0.423	0.080	-0.121	0.885	-0.051	0.789	0.457	0.204
dws t-1	-0.151	0.371	0.086	0.651	-0.032	0.862	-0.172	0.272	0.308	0.058	0.204	0.141	0.329	0.036	0.018	0.895	-0.099	0.529	0.198	0.212
nominal depreciation t	-0.005	0.041	-0.001	0.648	0.086	0.001	-0.145	0.000	-0.157	0.009	-0.011	0.893	-0.088	0.010	0.042	0.903	-0.130	0.336	-0.224	0.000
nominal depreciation t-1	0.009	0.001	0.003	0.471	-0.030	0.067	-0.079	0.038	-0.055	0.428	-0.022	0.788	0.046	0.193	0.180	0.604	-0.165	0.213	0.101	0.127
d(interest payments/budget expenditures)	-0.301	0.642	0.130	0.522	-0.677	0.262	0.138	0.803	1.422	0.327	-0.778	0.017	-0.289	0.099	-0.800	0.482	-1.506	0.001	0.106	0.813
R2	0.347		0.270		0.666		0.516		0.483		0.436		0.521		0.019		0.329		0.266	
Wald tests	Probability of Chi-square test stat.																			
homogeneity of the coefficient of growth t across countries	0.000																			
homogeneity of the coefficient of growth t-1 across countries	0.001																			
homogeneity of the coefficient of dws t-1 across countries	0.000																			
homogeneity of the coefficient of nominal depreciation t across countries	0.000																			
homogeneity of the coefficient of nominal depreciation t-1 across countries	0.000																			
homogeneity of the coefficient of d(interest payments/budget expenditures) across countries	0.004																			

**Table 6a**

Estimation Method: Seemingly Unrelated Regression

Sample: 1972 2003

Included observations: 32

Total system (unbalanced) observations 292

Dependent variable: percentage change in the wage share in manufacturing (dws)

	ARGENTINA		BRAZIL		CHILE		INDONESIA		KOREA		MALAYSIA		MEXICO		PHILIPPINES		THAILAND		TURKEY	
	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.
constant	-1.052	0.686	-1.577	0.376	-0.686	0.745	14.622	0.000	-0.629	0.734	1.174	0.536	-1.857	0.389	-3.490	0.658	0.141	0.963	2.165	0.740
growth t	0.626	0.038	-0.041	0.837	0.224	0.205	0.011	0.959	0.157	0.182	-0.203	0.056	0.483	0.086	-0.182	0.882	-0.182	0.356	-0.492	0.198
growth t-1	0.591	0.030	0.223	0.201	0.100	0.490	-0.960	0.000	0.064	0.541	0.045	0.684	0.184	0.490	0.835	0.336	0.376	0.038	0.679	0.112
dws t-1	-0.063	0.712	0.028	0.851	-0.318	0.077	-0.231	0.089	0.137	0.371	0.048	0.726	0.383	0.026	-0.078	0.492	0.052	0.751	0.316	0.051
nominal depreciation t	0.004	0.605	-0.002	0.435	-0.104	0.234	-0.083	0.041	-0.186	0.007	0.132	0.123	-0.060	0.093	-0.115	0.693	-0.131	0.347	-0.232	0.000
nominal depreciation t-1	-0.002	0.780	0.000	0.910	-0.161	0.002	-0.146	0.001	-0.058	0.419	-0.105	0.236	0.016	0.700	0.322	0.280	0.065	0.610	0.144	0.101
real interest rate t	-0.079	0.331	0.014	0.436	-0.034	0.691	0.184	0.206	-0.024	0.884	0.151	0.230	0.185	0.148	0.070	0.899	-0.041	0.869	-0.208	0.283
real interest rate t-1	0.086	0.209	0.009	0.646	0.318	0.014	-0.445	0.002	-0.025	0.868	-0.250	0.043	-0.216	0.079	-0.015	0.978	0.050	0.841	0.289	0.310
R2	0.286		0.111		0.333		0.570		0.505		0.420		0.537		0.077		0.181		0.356	

Wald tests

Probability of Chi-square test stat.

homogeneity of the coefficient of growth t across countries	0.000
homogeneity of the coefficient of growth t-1 across countries	0.002
homogeneity of the coefficient of dws t-1 across countries	0.000
homogeneity of the coefficient of nominal depreciation t across countries	0.000
homogeneity of the coefficient of nominal depreciation t-1 across countries	0.000
homogeneity of the coefficient of real interest rate t across countries	0.004
homogeneity of the coefficient of real interest rate t-1 across countries	0.003



**Table 6b**

Estimation Method: Seemingly Unrelated Regression

Sample: 1980 2003

Included observations: 24

Total system (balanced) observations 240

Dependent variable: percentage change in the wage share in manufacturing (dws)

	ARGENTINA		BRAZIL		CHILE		INDONESIA		KOREA		MALAYSIA		MEXICO		PHILIPPINES		THAILAND		TURKEY	
	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.
constant	-2.600	0.333	-2.091	0.241	-1.189	0.590	15.518	0.000	-0.133	0.936	-0.726	0.734	-1.476	0.505	-2.736	0.724	0.468	0.896	-4.317	0.529
growth t	0.491	0.133	0.079	0.763	0.215	0.175	-0.141	0.575	-0.092	0.425	-0.270	0.005	0.711	0.015	-1.013	0.304	-0.277	0.181	-0.535	0.246
growth t-1	0.904	0.001	0.537	0.014	0.170	0.258	-0.895	0.001	0.323	0.007	0.321	0.003	0.195	0.467	1.524	0.034	0.456	0.017	1.417	0.005
dws t-1	-0.106	0.539	0.052	0.772	-0.473	0.004	-0.096	0.617	0.130	0.351	0.201	0.156	0.323	0.054	-0.342	0.030	0.109	0.523	0.551	0.001
nominal depreciation t	0.008	0.296	-0.002	0.471	-0.201	0.017	-0.127	0.020	-0.236	0.000	-0.112	0.196	-0.044	0.207	-0.325	0.202	-0.239	0.102	-0.269	0.000
nominal depreciation t-1	0.001	0.930	-0.002	0.508	-0.117	0.042	-0.115	0.053	0.102	0.173	0.010	0.910	-0.015	0.737	0.262	0.312	0.086	0.521	0.293	0.005
real interest rate t	-0.123	0.109	0.013	0.493	-0.053	0.497	0.155	0.524	-0.659	0.000	0.246	0.126	0.076	0.574	0.532	0.336	-0.092	0.739	-0.659	0.013
real interest rate t-1	0.047	0.489	0.027	0.227	0.414	0.001	-0.347	0.110	0.298	0.120	-0.220	0.099	-0.203	0.109	0.155	0.728	0.105	0.708	0.525	0.281
R2	0.304		0.271		0.400		0.660		0.684		0.456		0.614		0.175		0.157		0.371	
Wald tests	Probability of Chi-square test stat.																			
homogeneity of the coefficient of growth t across countries	0.000																			
homogeneity of the coefficient of growth t-1 across countries	0.002																			
homogeneity of the coefficient of dws t-1 across countries	0.000																			
homogeneity of the coefficient of nominal depreciation t across countries	0.000																			
homogeneity of the coefficient of nominal depreciation t-1 across countries	0.000																			
homogeneity of the coefficient of real interest rate t across countries	0.004																			
homogeneity of the coefficient of real interest rate t-1 across countries	0.003																			

**Table 7a**

Estimation Method: Seemingly Unrelated Regression

Sample: 1972 2003

Included observations: 32

Total system (balanced) observations 320

Dependent variable: percentage change in the wage share in manufacturing (dws)

	ARGENTINA		BRAZIL		CHILE		INDONESIA		KOREA		MALAYSIA		MEXICO		PHILIPPINES		THAILAND		TURKEY	
	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.
constant	-2.309	0.313	0.449	0.813	-0.294	0.920	11.195	0.000	-1.620	0.204	-0.555	0.734	-0.186	0.926	-5.471	0.432	3.095	0.237	0.652	0.919
growth t	0.203	0.385	-0.071	0.693	-0.631	0.021	-0.320	0.116	0.322	0.001	-0.270	0.028	0.195	0.441	1.356	0.150	-0.442	0.049	-0.151	0.692
growth t-1	0.738	0.023	0.127	0.539	0.916	0.002	-0.420	0.064	0.047	0.635	0.260	0.021	0.177	0.563	0.009	0.990	0.474	0.022	0.304	0.449
dws t-1	-0.089	0.487	-0.017	0.912	-0.470	0.004	-0.112	0.468	0.070	0.577	0.093	0.517	-0.003	0.990	-0.177	0.171	0.022	0.905	0.439	0.014
nominal depreciation t	-0.004	0.036	0.001	0.711	-0.077	0.000	-0.148	0.000	-0.164	0.005	0.087	0.315	-0.110	0.001	0.314	0.286	-0.272	0.065	-0.141	0.031
nominal depreciation t-1	0.006	0.002	-0.001	0.683	0.076	0.000	-0.061	0.290	-0.194	0.042	0.012	0.915	0.030	0.375	0.238	0.507	0.058	0.765	0.109	0.124
d(export/value added) t-1	0.121	0.827	-0.722	0.151	1.173	0.296	-0.071	0.729	0.140	0.483	0.002	0.981	-0.372	0.067	0.046	0.838	-0.073	0.680	-0.532	0.054
d(import/value added) t-1	-0.534	0.162	0.161	0.601	-0.251	0.078	0.180	0.113	-0.033	0.876	-0.008	0.848	0.304	0.149	0.034	0.917	-0.109	0.251	-0.217	0.338
d(export/value added) t-2	1.127	0.177	-0.422	0.416	-1.317	0.143	0.077	0.600	-0.418	0.001	-0.060	0.239	-0.190	0.196	-0.519	0.035	-0.074	0.582	0.209	0.394
d(import/value added) t-2	-0.679	0.055	0.118	0.692	0.058	0.700	-0.052	0.598	0.384	0.061	0.080	0.034	0.192	0.260	0.521	0.052	0.123	0.128	0.204	0.340
R2	0.478		0.080		0.437		0.548		0.629		0.456		0.525		0.132		0.188		0.411	
Wald tests	Probability of Chi-square test stat.																			
homogeneity of the coefficient of growth t across countries	0.003																			
homogeneity of the coefficient of growth t-1 across countries	0.001																			
homogeneity of the coefficient of dws t-1 across countries	0.011																			
homogeneity of the coefficient of nominal depreciation t across countries	0.000																			
homogeneity of the coefficient of nominal depreciation t-1 across countries	0.000																			
homogeneity of the coefficient of d(export/value added) t-1 across countries	0.323																			
homogeneity of the coefficient of d(import/value added) t-1 across countries	0.256																			
homogeneity of the coefficient of d(export/value added) t-2 across countries	0.045																			
homogeneity of the coefficient of d(import/value added) t-2 across countries	0.224																			
Country specific tests	Probability of Chi-square test stat.																			
d(export/value added) t-1 + d(export/value added) t-2=0																				
ARGENTINA	0.199																			
BRAZIL	0.026																			
CHILE	0.920																			
INDONESIA	0.982																			
KOREA	0.225																			
MALAYSIA	0.495																			
MEXICO	0.039																			
PHILIPPINES	0.012																			
THAILAND	0.582																			
TURKEY	0.099																			
d(import/value added) t-1 + d(import/value added) t-2=0																				
ARGENTINA	0.001																			
BRAZIL	0.511																			
CHILE	0.103																			
INDONESIA	0.274																			
KOREA	0.165																			
MALAYSIA	0.185																			
MEXICO	0.113																			
PHILIPPINES	0.107																			
THAILAND	0.908																			
TURKEY	0.970																			

**Table 7b**

note

Estimation Method: Seemingly Unrelated Regression

Sample: 1972 2003

Included observations: 32

Total system (balanced) observations 320

Dependent variable: percentage change in the wage share in manufacturing (dws)

	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.	
common																					
d(exports/value added) t-1	-0.055		0.266																		
d(imports/value added) t-1	-0.008		0.822																		
d(exports/value added) t-2	-0.127		0.002																		
d(imports/value added) t-2	0.065		0.035																		
	ARGENTINA		BRAZIL		CHILE		INDONESIA		KOREA		MALAYSIA		MEXICO		PHILIPPINES		THAILAND		TURKEY		
constant	-3.448		0.179	-0.496	0.754	-0.400	0.887	12.310	0.000	-0.783	0.526	0.000	1.000	-1.007	0.597	-2.430	0.700	3.865	0.105	4.662	0.389
growth t	0.446		0.053	-0.123	0.444	-0.486	0.074	-0.153	0.436	0.155	0.089	-0.170	0.133	0.186	0.453	0.176	0.839	-0.335	0.077	-0.506	0.184
growth t-1	0.746		0.002	0.167	0.262	0.554	0.036	-0.677	0.001	0.098	0.261	0.199	0.077	0.376	0.112	0.452	0.504	0.336	0.053	0.456	0.204
dws t-1	-0.022		0.854	0.077	0.565	-0.413	0.014	-0.176	0.224	0.095	0.424	0.034	0.817	0.161	0.303	-0.167	0.141	-0.114	0.438	0.345	0.032
nominal depreciation t	-0.004		0.072	0.001	0.684	-0.069	0.001	-0.126	0.000	-0.197	0.000	0.081	0.358	-0.105	0.001	0.041	0.865	-0.243	0.069	-0.213	0.001
nominal depreciation t-1	0.009		0.000	-0.001	0.543	0.070	0.000	-0.071	0.047	-0.078	0.205	0.033	0.753	0.039	0.245	0.360	0.184	0.011	0.936	0.115	0.094
R2	0.216		0.072		0.361		0.497		0.547		0.397		0.468		0.041		0.121		0.276		
Wald tests					Probability of Chi-square test stat.																
d(exports/value added) t-1+d(exports/value added) t-2 =0					0.005																
d(imports/value added) t-1+d(imports/value added) t-2 =0					0.151																
homogeneity of the coefficient of growth t across countries					0.003																
homogeneity of the coefficient of growth t-1 across countries					0.001																
homogeneity of the coefficient of dws t-1 across countries					0.011																
homogeneity of the coefficient of nominal depreciation t across countries					0.000																
homogeneity of the coefficient of nominal depreciation t-1 across countries					0.000																

**Table 8**

Estimation Method: Seemingly Unrelated Regression

Sample: 1973 2003

Included observations: 31

Total system (unbalanced) observations 300

Dependent variable: percentage change in the wage share in manufacturing (dws)

	ARGENTINA		BRAZIL		CHILE		INDONESIA		KOREA		MALAYSIA		MEXICO		PHILIPPINES		THAILAND		TURKEY	
	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.
constant	-2.702	0.288	-0.863	0.578	0.865	0.652	9.819	0.000	-0.291	0.880	0.367	0.821	0.428	0.835	-2.336	0.712	5.904	0.021	5.282	0.293
growth t	0.160	0.525	-0.299	0.073	-0.365	0.040	0.102	0.623	-0.063	0.649	-0.264	0.004	0.243	0.365	1.190	0.162	-0.399	0.041	-0.617	0.053
growth t-1	0.766	0.003	0.218	0.161	0.170	0.341	-0.733	0.001	0.215	0.107	0.155	0.171	0.110	0.676	-0.501	0.470	0.152	0.393	0.737	0.023
dws t-1	-0.084	0.512	0.010	0.937	-0.873	0.000	-0.342	0.056	-0.149	0.464	0.057	0.716	0.074	0.660	-0.091	0.420	-0.009	0.951	0.219	0.119
nominal depreciation t	-0.004	0.077	0.000	0.856	-0.104	0.000	-0.102	0.001	-0.304	0.000	0.035	0.670	-0.089	0.008	0.289	0.230	-0.221	0.105	-0.224	0.000
nominal depreciation t-1	0.008	0.000	0.000	0.983	0.085	0.000	-0.107	0.003	-0.047	0.550	-0.006	0.943	0.009	0.817	0.049	0.871	-0.264	0.115	0.090	0.121
d(FDI/GDP) t-1	0.274	0.833	4.374	0.041	-1.581	0.014	-0.599	0.714	-4.241	0.076	0.494	0.226	-4.089	0.015	1.886	0.612	0.873	0.282	3.557	0.471
d(FDI/GDP) t-2	-0.486	0.690	-3.158	0.151	-0.862	0.198	-2.504	0.111	2.432	0.212	0.637	0.111	-4.815	0.026	-9.817	0.005	-1.375	0.048	2.486	0.699
R2	0.230		0.092		0.612		0.533		0.697		0.399		0.530		0.150		0.203		0.290	
Wald tests	Probability of Chi-square test stat.																			
homogeneity of the coefficient of growth t across countries	0.002																			
homogeneity of the coefficient of growth t-1 across countries	0.001																			
homogeneity of the coefficient of dws t-1 across countries	0.001																			
homogeneity of the coefficient of nominal depreciation t across countries	0.000																			
homogeneity of the coefficient of nominal depreciation t-1 across countries	0.000																			
homogeneity of the coefficient of d(FDI/GDP) t-1 across countries	0.0036																			
homogeneity of the coefficient of d(FDI/GDP) t-1 across countries	0.0017																			
Country specific tests	Probability of Chi-square test stat.																			
d(export/value added) t-1 + d(export/value added) t-2=0	Probability of Chi-square test stat.																			
ARGENTINA	0.916																			
BRAZIL	0.569																			
CHILE	0.034																			
INDONESIA	0.060																			
KOREA	0.454																			
MALAYSIA	0.068																			
MEXICO	0.007																			
PHILIPPINES	0.101																			
THAILAND	0.625																			
TURKEY	0.566																			

**Table 9**

Estimation Method: Seemingly Unrelated Regression

Sample: 1973 2003

Included observations: 31

Total system (unbalanced) observations 281

Dependent variable: percentage change in the wage share in manufacturing (dws)

	Coefficient	Prob.
growth t	-0.151	0.091
growth*recession dummy	-0.015	0.941
recession dummy	-4.038	0.012
growth t-1	0.195	0.002
nominal depreciation	-0.003	0.066
nominal depreciation t-1	0.004	0.015
d(government final consumption expenditure/GDP)	1.511	0.000
d(interest payments/budget expenditures)	-0.157	0.094
d(export/value added) t-1	-0.082	0.064
d(import/value added) t-1	0.026	0.429
d(FDI/GDP) t-1	-0.368	0.168
d(export/value added) t-2	-0.086	0.034
d(import/value added) t-2	0.038	0.208
d(FDI/GDP) t-2	-0.107	0.703
Fixed effects		
ARGENTINA	1.137	0.702
BRAZIL	-0.511	0.778
CHILE	1.900	0.225
INDONESIA	0.186	0.924
KOREA	-0.094	0.947
MALAYSIA	0.589	0.631
MEXICO	-0.498	0.686
PHILIPPINES	2.895	0.420
THAILAND	2.742	0.015
TURKEY	0.141	0.945
R2	0.136	
Wald tests	Probability of Chi-square test stat.	
growth+growth*recession dummy=0	0.375	
d(export/value added) t-1+d(export/value added) t-2 =0	0.005	
d(import/value added) t-1+d(import/value added) t-2 =0	0.151	
d(FDI/GDP) t-1+d(FDI/GDP) t-2 =0	0.262	

**Table 10**

Estimation Method: Seemingly Unrelated Regression

Sample: 1980 2003

Included observations: 24

Total system (unbalanced) observations 219

Dependent variable: Change in unemployment

	ARGENTINA		BRAZIL		CHILE		INDONESIA		KOREA		MALAYSIA		MEXICO		PHILIPPINES		THAILAND		TURKEY	
	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.
Change in unκ	0.594	0.107	0.269	0.363	0.990	0.002	0.622	0.000	1.269	0.000	0.363	0.026	0.419	0.021	0.278	0.137	0.730	0.013	0.136	0.448
growth t	-0.153	0.000	-0.235	0.000	-0.325	0.000	-0.037	0.008	-0.147	0.000	-0.047	0.000	-0.095	0.002	-0.016	0.603	-0.084	0.001	-0.028	0.172
dws t-1	-0.025	0.251	-0.022	0.537	0.084	0.109	0.007	0.456	-0.093	0.000	0.020	0.457	0.018	0.332	-0.014	0.118	0.014	0.693	-0.015	0.125
R2	0.344		0.477		0.641		0.115		0.702		0.440		0.471		0.094		0.212		0.091	

Figure 1: Neoliberal Globalization and Labor

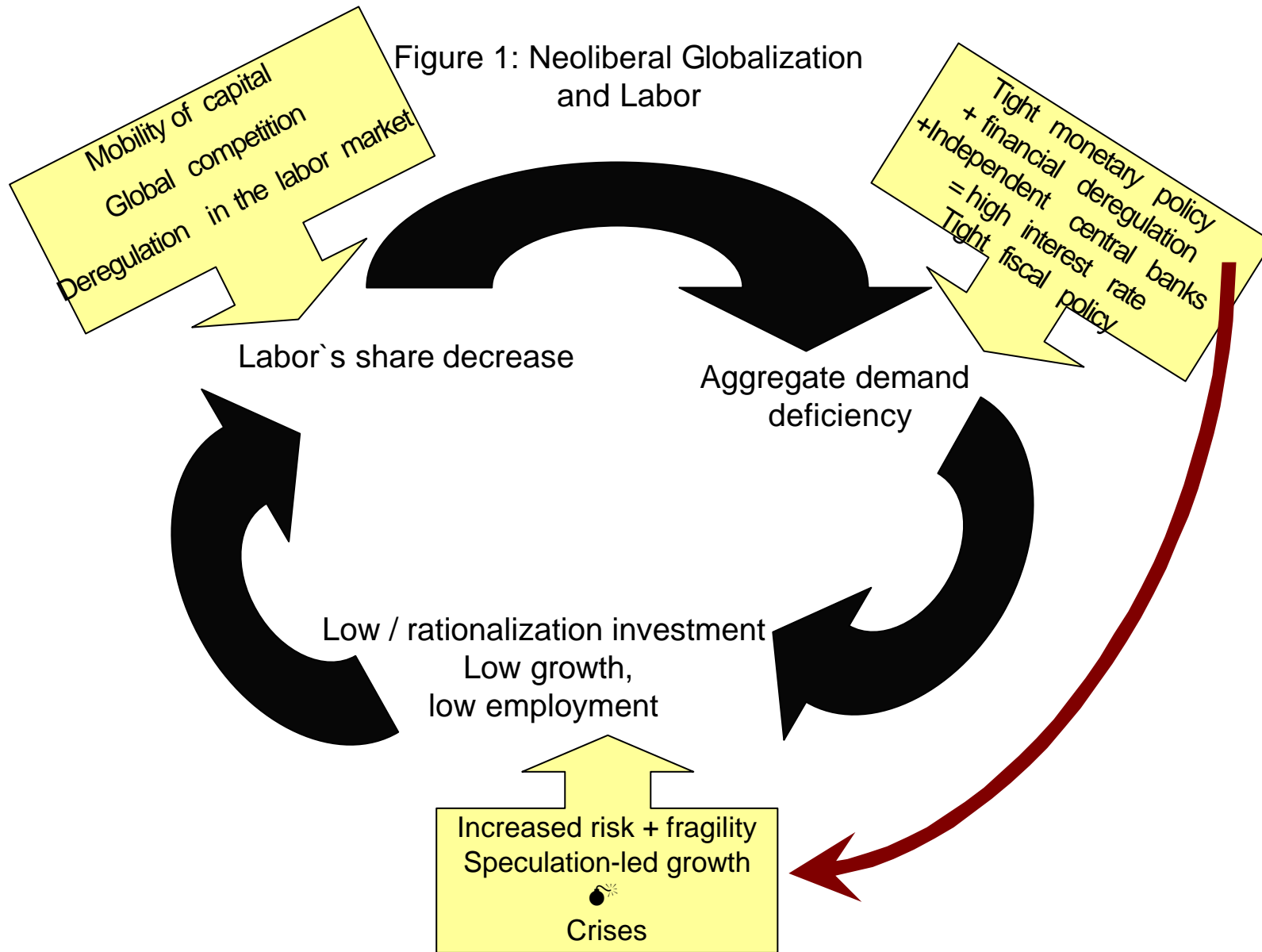
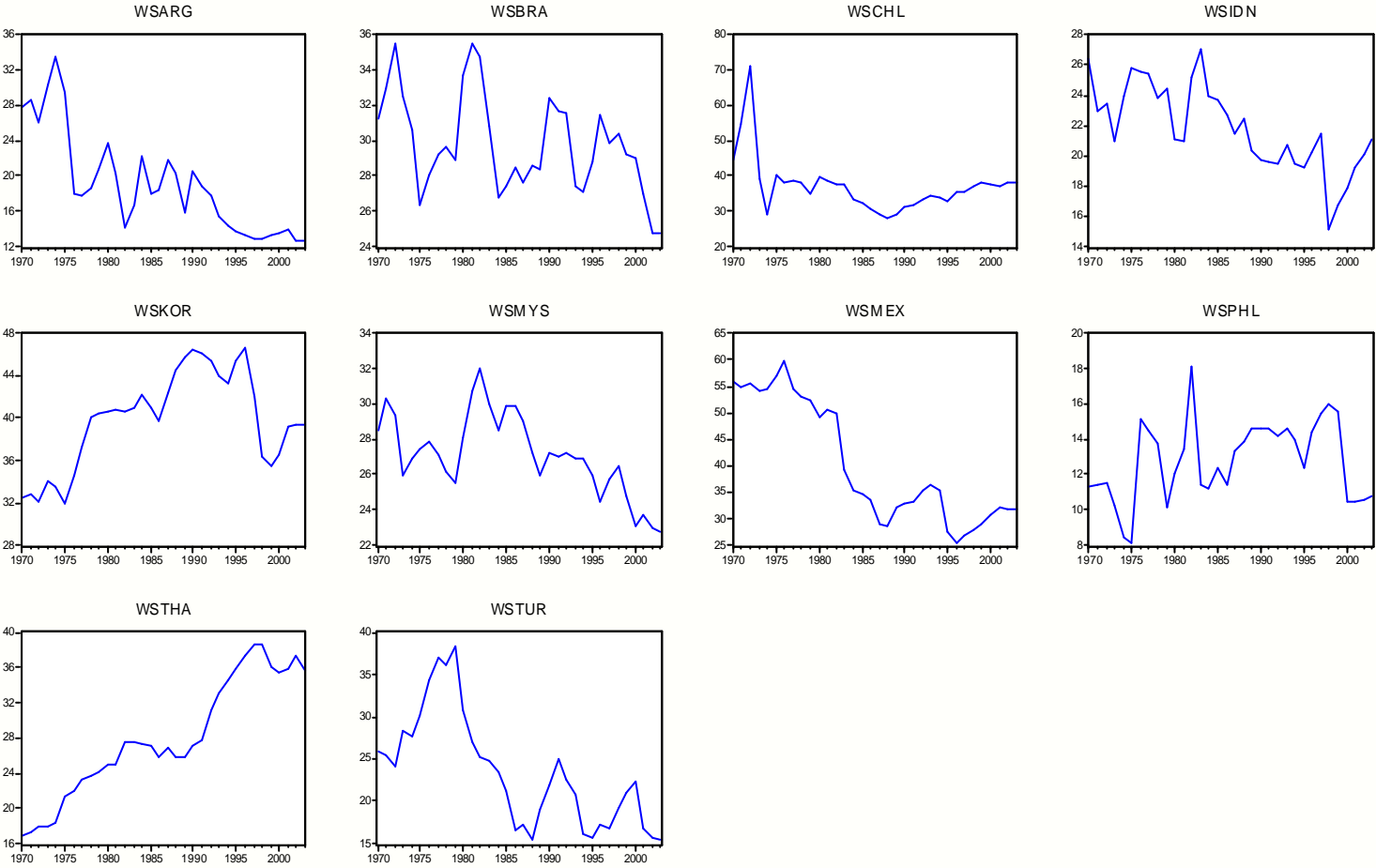


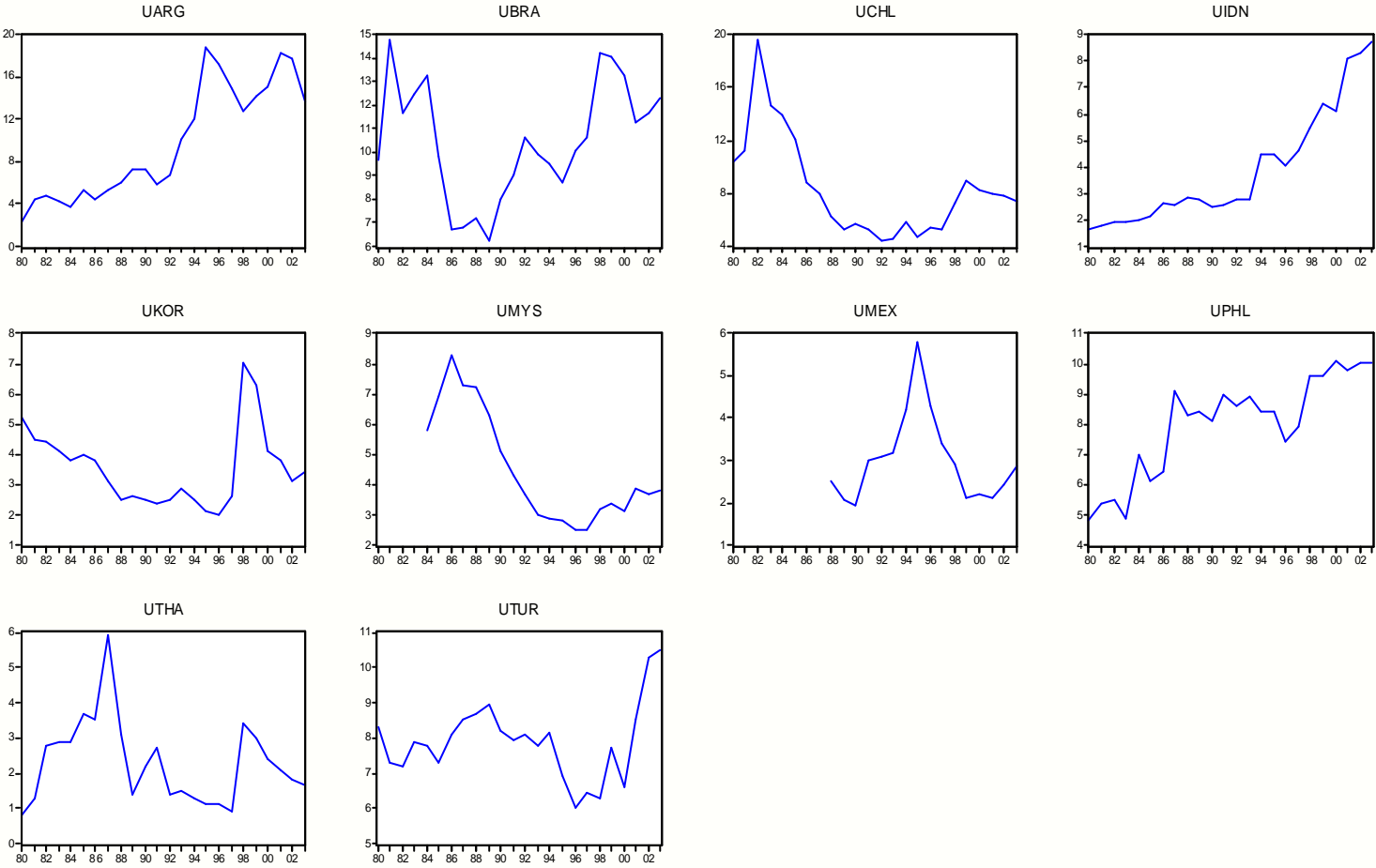
Figure 2: Wages / value added in manufacturing industry (WS)



Note: See text for detailed notes on data. The country codes are indicated next to the abbreviation WS.

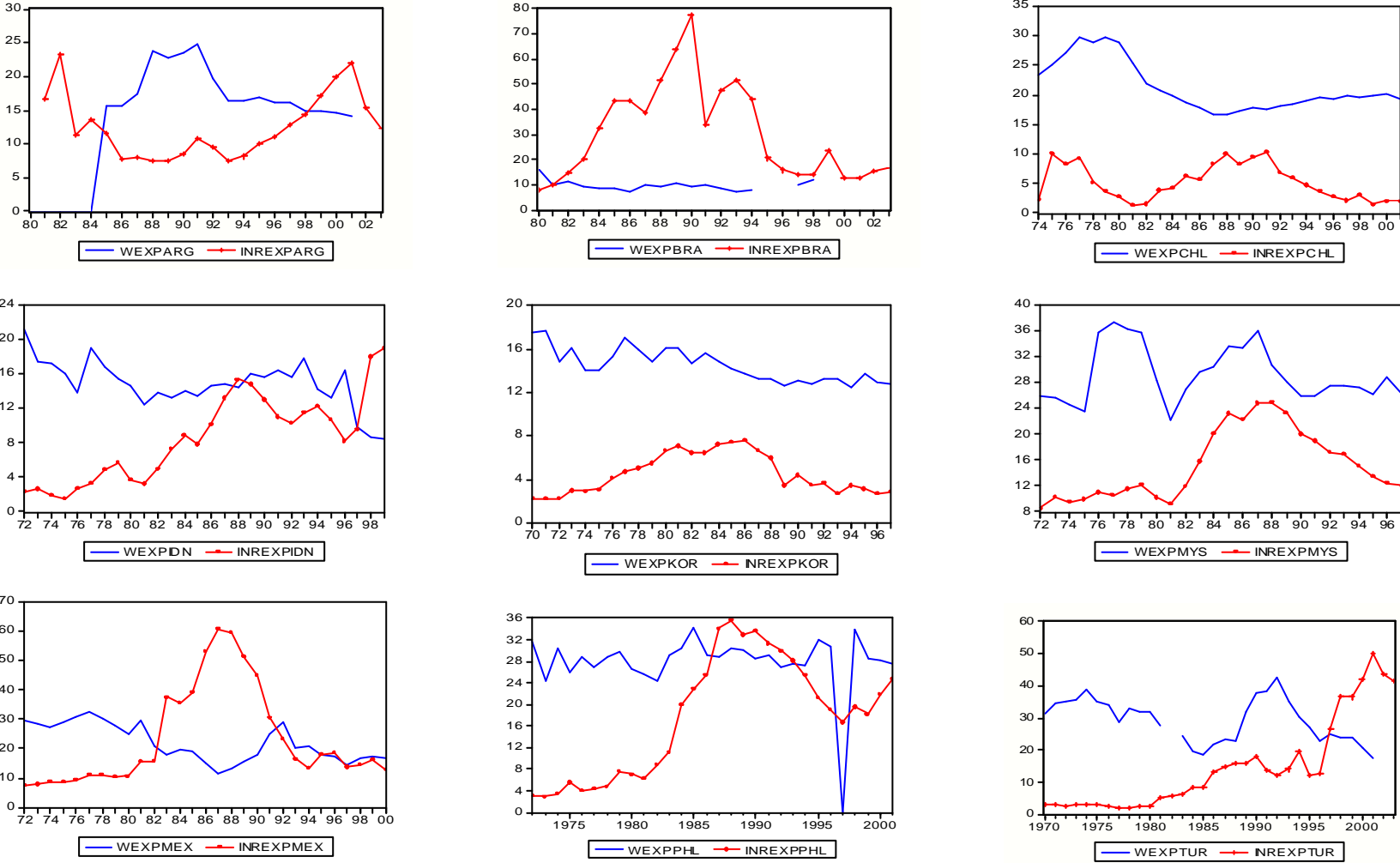


Figure 3: Unemployment rate (U)



Note: See text for detailed notes on data. The country codes are indicated next to the abbreviation WS.

Figure 4: The share of wages (WEX\*) and interest payments (INREXP\*) in government expenses (%)



Note: See text for detailed notes on data. The country codes are indicated next to the abbreviation WEX for the share of wages and INREXP for the share of interest payments in government expenses.