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**PUBLIC DISCLOSURE AUTHORIZED**

Labor Markets in an Era of  
Adjustment

D. Mazumdar

The World Bank Group  
**Archives**



**30135988**

R1989-051 Other # 8 Box # 4481B

Labor Markets in an Era of Adjustment - By D. Mazumdar

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WITH RESTRICTIONS**  
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# OFFICE MEMORANDUM

DATE: June 10, 1988

TO: Mr. Dipak Mazumdar, EDIST

FROM: Dennis de Tray, Research Administrator, PPRRA

EXTENSION: 33480

SUBJECT: Research Proposal: Labor Markets in an Era of Adjustment

Your request for research support budget funding to underwrite a part of the costs of the above project has now been reviewed by two external and two internal referees and a subcommittee of the Research Committee. Based on the four reviews and its own assessment of the proposal, the subcommittee has decided against your request. As did the reviewers, the subcommittee recognized the importance of the overall topic you proposed to address, but was not able, on the basis of material presented, to judge the value added of your undertaking from a research perspective. Nor were we able to determine precisely what, in terms of research, the project was proposing to undertake or what methods would be used to carry out that research.

As I indicated to you and to Mr. King earlier, the Research Committee is unlikely to support traditional EDI activities per se. However, it was my presumption that in the normal course of preparing EDI materials, research questions would occasionally arise that EDI staff might want to consider in parallel with their regular activities. Your proposal as it now stands looks very much like the proposal that was used to put together EDI funding for the book. Therein lies its principal shortcoming as a research proposal. If EDI and its staff are to seek funding through the central research program, they must be prepared to produce proposals that indicate clearly the research question or questions being asked and the methodologies that will be used to address those questions. A request to buy into an ongoing EDI activity seems to me not likely to succeed.

Should you or Mr. King wish to discuss this matter further, please do not hesitate to contact me.

cc: Messrs. C. Willoughby, T. King (EDI)  
Research Committee Members

DDT:ava

Mayemler

- prop. reviewed
- Regret subcom. decided against your bonding req.
- US did reviews, subcom recog. import. of topic.
- however, based on material presented there was not sub. sense of value added from a US perspective, or how reg. related topics would be carried out.

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION  
**OFFICE MEMORANDUM**

DATE: June 6, 1988

TO: Mrs. Phi Anh Plesch, PPRRA

FROM: Friedrich Kahnert, ASIVP

EXTENSION: 76376

SUBJECT: My Comments on "Labor Markets in an Era of Adjustment"

If it is not too late, please replace "tenaciously" by "tenuously" in line 7 from the bottom of page 1 of my memo on the above, dated May 25.


FKahnert:ctb

cc: Messrs. O. Yenal, H. Fleisig

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION  
**OFFICE MEMORANDUM**

DATE: June 2, 1988

TO: Ms. Phi Anh Plesch (PPRA)

FROM: Dipak Mazumdar, EDIST 

EXTENSION: 73305

SUBJECT: Research Proposal: Labor Markets in an Era of Adjustment

1. Thank you for sending me the comments from your reviewers. At the outset I would like to draw the attention of the Committee to the fact that there has been a misunderstanding about the nature of the proposal at least on the part of reviewers 2 and 3. This proposal is not and was never meant to be a research project in the traditional sense. It is not concerned with the specification of a model and its testing. Rather, it is part of the EDI activity in the production of "training material," and was approved as such within EDI. Training materials are developed by the EDI for the use in courses offered by itself or its partner institutions world-wide. An important by-product is the availability of material for teaching in universities both in developed and developing countries. As such the emphasis is on synthesis and interpretation of widely scattered discussions. To the extent that new data are readily available or easily acquired in specific countries some empirical research is undertaken in the preparation of training material. But even here the objective is not that of testing hypotheses emanating from a narrowly focussed model. Training material could be narrow or wide in scope. In the case of the present proposal the scope is a wide one. The objective is to provide a volume of analytical essays on the key issues in the subject of study and country case studies to illustrate the questions raised in the theoretical chapters. The proposal was submitted to the Research Committee only after discussions with Mr. de Tray, who assured Mr. King that support for this type of EDI activity was within the terms of reference of the Research Committee.

2. Secondly, the proposal is not requesting the Committee to commit itself to a funding of \$500,000 as the Reviewer No. 2 seems to think. Co-financing for the country case studies has already been obtained from the ILO and CIDA. Another

agency (ODA) is being requested to cofinance the cost of participation of the authors in one of the two conferences which are planned. The request to the Research Committee is only for funding the consulting fee of the authors of the issue papers, and the cost of the participation of all the paper writers and discussants at one of the conferences (\$35K for the former and \$53K for the latter). The request falls then more in line with the Research Committee's tradition of funding conferences in which invited participants have presented papers round a specific topic.

3. Although no request has been made to the Research Committee in the country case studies, they might like to know that the statements from the Canadian co-ordinators which were attached to the proposal are not the final framework for the studies. They represented outlines of the subject area on the basis of which funding from other sources has been obtained. Professor Kanbur and I are developing a framework at a series of meetings with the consultants--the first of which was held at Warwick in April, and the next one will be in Toronto on June 6-7. A paper will be produced by Professor Kanbur and myself this summer as a result of this process, which will be circulated to the authors of the country studies to be used as the initial framework (not a model) for their work. The framework will, of course, be revised during succeeding meetings and at the first conference. The selection of countries has also not yet been finalized, but will be done during this summer as discussions continue. It is likely that what Reviewer No. 1 had in mind in point (2) on page 5 is already underway. I will, however, repeat that the request to the Research Committee is not for financing the case studies, but only the issue papers.

4. Reviewer No. 3 seems to doubt that with "a pay of \$5,000 the authors will be stimulated to produce a good paper containing discussion of a model and review of the literature." Actually at our Warwick conference we tentatively agreed on arrangements with four authors who presented their initial ideas: Messrs. Addison and Demery who have been writing extensively on problems of adjustment and income distribution; Dr. Paul Collier who is intensely involved in research on Women in Labor Markets; and Dr. Charles Bean, a young economist from the L.S.E., who has worked extensively with models of stagflation in developed countries. Perhaps the reviewer does not know that contributors to the prestigious North-Holland "Handbook" series on different branches of economics, are not paid anything at all!

7. The same reviewer also raised questions about the utility of the conferences and the budget estimates for them. The rationale for the conferences was given in para. 28, page 22 of the proposal, perhaps too briefly. Since we envisage the country studies to be written by LDC based economists (in collaboration with an international consultant) we felt it was important to meet at least twice in the course of the project for the purpose of interacting with each other, as well as with the authors of issue papers. "The benefits of such interaction for participants from LDC institutions will be an important output of the project," and is in line with EDI's major activities. The budget as detailed in Item 4 on page 26 does not seem excessive (if one wants to bring the authors together at all, that is to say).

8. Finally, the doubts about duplication which struck Reviewer No. 1 in his initial paragraph are probably not warranted considering the extensive involvement of the major investigators in the world-wide research program on structural adjustment. Professor Kanbur is an active participant in the research program on the Social Dimensions of Adjustment in Africa in the Bank, and is also an adviser on the ODI program. Professor Gerry Helleiner, one of our Canadian consultants, is co-director of the large program of research on adjustment conducted by WIDER. I am, myself, involved with the ILO research on the subject in Southeast Asia. The literature on the completed and on-going research--on which, incidentally, a bibliography is being completed under Kanbur's supervision at Warwick--is fairly well known to us. It is because we noticed a gap in the research with respect to the focus on labor markets that our proposal was initiated.

DMazumdar:ms

cc: Mr. Timothy King, Chief (EDIST)



# OFFICE MEMORANDUM

DATE: May 31, 1988

TO: Messrs. A. Golan, ASTDR and V. Corbo, CECMG

FROM: Phi Anh Plesch, PPRRA *PPRA*

EXTENSION: 31063

SUBJECT: Research Proposal: "Labor Markets in an Era of Adjustment"

Thank you for agreeing to serve on the subcommittee set up to evaluate the above proposal. Enclosed for your review are the proposal, the chief economists' comments on the proposal, and a set of four reviews (two internal and two external). These reviews were sent to the sponsor for their response. Such response, if any, is expected within a week and will be circulated to you. A meeting of the subcommittee will have to be scheduled soon to discuss and decide on the proposal. It will be held in Mr. de Tray's office. Thank you.

# OFFICE MEMORANDUM

DATE: May 27, 1988  
TO: Mr. Dipak Mazumdar, EDIST  
FROM: Phi Anh Plesch, PPRRA *JAP*  
EXTENSION: 31063  
SUBJECT: Research Proposal: "Labor Markets in an Era of Adjustment"

The Research Committee has issued a rule giving all sponsors the right to respond to reviewers' comments before the Committee -- or its subcommittees -- meets to decide on their proposals.

In accordance with this rule, I am sending you the set of referees' reports on your above-titled proposal. Should you wish to respond to their comments, your response should be received by my office as soon as possible but no later than June 3, 1988 c.o.b.

cc: Mr. T. King, EDIST

Regional Consultation Form

Preamble: This form is designed to seek the comments of regional chief economists on research proposals that will involve their countries or regions. Its purpose is to allow the Research Committee to assess the extent of regional coordination and support for the proposed study.

Research Proposal Title: Labor Markets in an Era of Adjustment

Country Coverage: Tentative:  
Latin America - Brazil, Argentina, Bolivia, Costa Rica  
Africa - Kenya, Cote d'Ivoire, Ghana  
Asia - Malaysia, Thailand, Indonesia

Comments by Chief Economist (Please indicate whether you are satisfied with the level and form of coordination and liaison undertaken by project sponsors with the relevant operational units in your region. Also indicate any expression of support and in case of no support, please state the reasons):

- A. No consultation has taken place with the Lead Economist for Malaysia and Thailand or with the Regional Chief Economist.
- B. We do not support this project because neither the research question to be investigated nor the approach to be taken is clear.

Signature: *Okianh*

Date: May 25, 1988

Please return the form to Phi Anh Plesch (S-13-137) by May 27, 1988 c.o.b.

ROUTING SLIP		DATE	May 25, 1988
FROM THE OFFICE OF THE REGIONAL VICE PRESIDENT			
NAME		ROOM NO.	
Mr. de Tray		S13-135	
	APPROPRIATE DISPOSITION		NOTE AND RETURN
	APPROVAL		NOTE AND SEND ON
	COMMENT		PER OUR CONVERSATION
	FOR ACTION		PER YOUR REQUEST
	INFORMATION		PREPARE REPLY
	INITIAL		RECOMMENDATION
	NOTE AND FILE		SIGNATURE
REMARKS      Re: <u>Labor Market Research</u>			
<p>Please find <del>the</del> attached, for your confidential information, a note from Danny Leipziger.</p> <p style="text-align: right;"><i>file - Maymudar Prof.</i></p>			
FROM      O. Yenal <i>OY.</i>			

May 20, 1988

Note to Mr. Yenal

Re. Labor Markets Research Proposal

Oktaay,

I am frankly appalled at the quality of this proposal. Even after reading the proposal and the broad, if unfocussed review of the literature, one still at the end does not have an idea of either the precise research question to be investigated or the approach to be taken. One becomes even more concerned when one gets to the outputs: (a) seven issue papers which all fall into the category of review papers which seek to tell us what we already know and (b) a group of country studies which will be handled by three separate study teams without any proposed methodology whatsoever. One finally reaches the point of incredulity when one sees that the country studies and initial workshop are fully funded and that the Bank is being asked to fund half of the remaining costs which includes \$110,000 for meetings at Warwick, \$50,000 for administrative costs and fees and \$35,000 for the ill-defined review papers. Surely this is not what our research budget should be spent for. Please tell me if you need more formal comments.



Danny M. Leipziger

DML:jlc

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MAR 16 2021

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Regional Consultation Form

Preamble: This form is designed to seek the comments of regional chief economists on research proposals that will involve their countries or regions. Its purpose is to allow the Research Committee to assess the extent of regional coordination and support for the proposed study.

Research Proposal Title: Labor Markets in an Era of Adjustment

Country Coverage: Tentative:  
Latin America - Brazil, Argentina, Bolivia, Costa Rica  
Africa - Kenya, Cote d'Ivoire, Ghana  
Asia - Malaysia, Thailand, Indonesia

Comments by Chief Economist (Please indicate whether you are satisfied with the level and form of coordination and liaison undertaken by project sponsors with the relevant operational units in your region. Also indicate any expression of support and in case of no support, please state the reasons):

This is an important overall area ~~where~~ where more work is needed. However the proposal lacks focus, particularly in identifying the specific questions to be addressed. It is not clear what are the questions that will be answered and ~~with~~ their relationship to the typical policy questions being asked in CAC. Our country economists have not been consulted. I suggest

Signature:

Date: May 26, 1988

Please return the form to Phi Anh Plesch (S-13-137) by May 27, 1988 c.o.b.

a meeting with country economists to identify the questions to which further research will provide an answer. Ricardo Martin will coordinate. Marcelo Selouf

ROUTING SLIP

DATE

5/27

FROM THE OFFICE OF THE  
REGIONAL VICE PRESIDENT

NAME

ROOM NO.

Ms. Plesch

5-13-137

APPROPRIATE DISPOSITION

NOTE AND RETURN

APPROVAL

NOTE AND SEND ON

COMMENT

PER OUR CONVERSATION

FOR ACTION

PER YOUR REQUEST

INFORMATION

PREPARE REPLY

INITIAL

RECOMMENDATION

NOTE AND FILE

SIGNATURE

REMARKS

FROM

F. S. O'Brien

34637

5/18 ✓

Regional Consultation Form

Preamble: This form is designed to seek the comments of regional chief economists on research proposals that will involve their countries or regions. Its purpose is to allow the Research Committee to assess the extent of regional coordination and support for the proposed study.

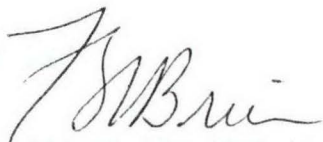
Research Proposal Title: Labor Markets in an Era of Adjustment

Country Coverage: Tentative:  
Latin America - Brazil, Argentina, Bolivia, Costa Rica  
Africa - Kenya, Cote d'Ivoire, Ghana  
Asia - Malaysia, Thailand, Indonesia

Comments by Chief Economist (Please indicate whether you are satisfied with the level and form of coordination and liaison undertaken by project sponsors with the relevant operational units in your region. Also indicate any expression of support and in case of no support, please state the reasons):

To date there has been no coordination or liaison with economists in the Africa Region who work on the countries listed above. This is confirmed by the memos which are attached. There are also some suggestions in these memos which you may wish to bring to the attention of the researchers.

Signature:



Date:

5/26/87

Please return the form to Phi Anh Plesch (S-13-137) by May 27, 1988/c.o.b.



# OFFICE MEMORANDUM

5/25

DATE: May 24, 1988

TO: Mr. F. Stephen O'Brien, AFR

FROM: Richard Westebbe, AF1

EXTENSION: 34510

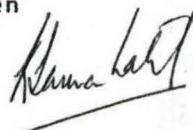
SUBJECT: Labor Market Research Proposal

To my knowledge there has been no liaison with the RCI desk on the proposed research and the interested parties should contact Messrs. Cherif and Ghanem. They may also wish to refer to Newman's paper on RCI Wage Flexibility during a Recession (1979-84) as well as our special report on Employment (1974).

cc: Mr. Cherif

Date: May 26, 1988

To: F. Stephen O'Brien

From: K. Sarwar Lateef 

Extn.: 34032

Subject: Research Proposal: Labour Markets in an Era of Adjustment

This refers to your memorandum of May 23, 1988 on the above subject. I am attaching Ian Bannon's (the country economist for Kenya) comments on the proposal. On the two points on which you wanted our advice. First, neither Ian nor Aziz Khan who is currently writing a report on employment issues in Kenya have been consulted on this. Second, I must confess I share some of Ian's reservations about including Kenya: it is being overstudied; the authors appear to be over-optimistic about the availability of the new data emerging and Kenya does not seem to us a particularly good example of structural adjustment. So we are not sure we will learn very much more than what has already been done. Does the proposal involve any field work? If it does, I would have even greater reservations, because we are currently overloading Kenya with ESW and other studies.

cc. Mr Bannon

Sarwar,

I checked with Aziz. He has no problem with the study and thinks the people involved are good. He, like I, think that they are being very optimistic on data availability (i.e. the urban labor force survey and planned labor force survey in 1988).

I feel somewhat differently. As you know I think Kenya is over-researched. More importantly, Kenya has not gone through a period of structural adjustment - stabilization yes but not structural adjustment. The authors keep using these terms interchangeably. For instance, they argue (p.6) Kenya was hard hit by recession due to falling ag. prices. This is not the problem but rather one of boom - bust cycles. It seems to me that you would be comparing apples with oranges.

As for as D'Brien's other question - neither Aziz nor I have been consulted ("coordination and liaison by project sponsors with relevant operational units").

I also have a broader concern not applicable to Kenya. Why do we need this study (other than to get a book out of it?) with all the wealth (and largely undigested) of data and analysis in the WMS projects.

As you can see my attitude (though not Aziz's) is negative but I fear our opinion is asked only as a formality.

lan

## OFFICE MEMORANDUM

DATE: May 23, 1988

TO: Messrs. Westebbe, Lateef, Squire and Grawe

FROM: F. Stephen O'Brien *FSOB*

EXTENSION: 34637

SUBJECT: Research Proposal: Labor Markets in an Era of Adjustment

*W. H. Brown*  
Have we been approached on this?  
URGENT  
*Lyn*

The above-mentioned research proposal has been sent to me for regional clearance. The researchers are proposing to include Cote d'Ivoire, Ghana, Kenya and possibly Zambia as country case studies in their project. I have attached the cover sheets and a brief on the Africa module of the study for your information. The Africa work would be supervised by Professors Milne and Helleiner of Toronto University. If you are not aware of this project and wish to know more, I have the complete proposal.

At this stage I am required to certify whether I am "satisfied with the level and form of coordination and liaison undertaken by project sponsors with relevant operational units in your region" as well as whether we support the proposal. My deadline for reporting to the research committee is 5/27. Therefore, will you please provide me with answers to the above questions by c.o.b. Thursday, May 26. An EM or telephone call will suffice. Thank you.

## Attachments

*Lyn*

No we have not been approached on this. But I strongly support the idea (although the issues appear to cover everything and then uncle and may need to be sharpened). Ravi Kanbur is a key researcher for the IDA project (he is Prof. at Warwick) and there would be a few externalities/complacencies to this study. Six months of the LSMS is now in and we have gobs of data which need analysis. The more the research, the better for Ghana, which to me is a highly under-researched country. However, we need to ensure that the Government is not overly burdened by any of this (and I suspect it will not be).

*Y. H. Brown*

Reviewer 2

May 26, 1988

Ms. Phi Anh Plesch  
Research Committee Secretary  
Policy, Planning and Research  
The World Bank  
1818 H Street, NW  
Washington, D.C. 20433

Dear Ms. Plesch;

The proposal "Labor Markets in an Era of Adjustment" by Mazumdar and Kanbur addresses an important set of issues. Labor market mechanisms mediate most of the welfare effects of structural adjustment policies and a better understanding of how these mechanisms work in developing countries will certainly be of value to policy makers in designing structural adjustment programs. Further, the specific areas the authors propose to pursue impress me as an extensive list of the most important topics relevant to the role of structural adjustment. These are the proposals strong points.

The major weakness of this proposal is that it is extremely vague, as to what the authors will do to address the issues they have identified. Besides offering to survey and synthesize certain literatures and to "tabulate and analyze existing data" in circumstances where their questions can not be answered by literature review, the proposal goes no further in detailing the methods to be employed.

Were the principal investigators complete unknowns this proposal would be a very big risk. However, at least one of them, Prof. Kanbur (the only one who's C.V. was included in my copy of the proposal) is a very capable and accomplished economist. It is not impossible that, as ill-defined as this project is, it could produce results which would be very useful to the World Bank and policy makers in developing countries. But, despite Professor Kanbur's exceptional ability the World Bank might want to see a more detailed proposal before committing to a \$573,000 project. A problem may be that the project would have to be substantially underway before it would be possible to provide a more detailed description of what would be done.

As an alternative the Bank may wish to fund some small part of the proposal and evaluate the product before committing to additional funding. Perhaps the authors could be funded to produce first drafts of two of the issue papers described on pages 15-20 of the proposal. The first two would be the ones which I would guess would be the most interesting and the easiest with which to start.

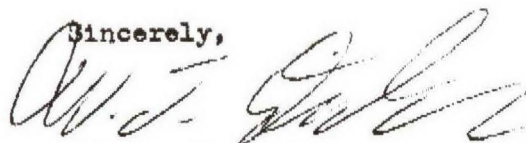
-2-

The same approach might be taken with the country case studies -- have the authors produce one or two and then evaluate them before committing to funding the full set of studies. The Bank and the authors could collaborate in choosing a good test case.

When the project is considered for full funding it would be a good idea to provide the reviewer with biographical information for all the major participants, not just the primary principal investigator.

I hope this review proves useful to you. I would be happy to discuss my evaluation with you if you have further questions. I can be reached at (312) 825-1671 until May 30th. After that I will be back in Berkeley starting June 1st.

Sincerely,



William T. Dickens  
Associate Professor  
Department of Economics  
University of California,  
Berkeley

Social Security Number  
325-44-8635

# OFFICE MEMORANDUM

Reviewer 4

**DATE:** May 25, 1988

**TO:** Mrs. Phi Anh Plesch, PPRRA

**FROM:** Friedrich Kahnert, ASIVP

**EXTENSION:** 76376

**SUBJECT:** Research Proposal: Labor Markets in an Era of Adjustment

1. Before commenting on the proposal, I have to confess to significant scepticism as to the actual operational impact of the vast amount of research that has gone and is going into the functioning of labor markets. This is based in large part on two factors. One is the unusually pronounced penchant, at least in the modest part of the vast literature I am familiar with, to interpret available data to prove preconceived ideas. This is not at all to question the competence of the well-known individuals that will work on this project, but to point out the considerable difficulties that will be encountered in the literature surveys that are such a large part of the project. The other factor is the dominance of "political economy" in this subject area, which greatly restricts the scope for identifying lessons of general significance.

2. This being said, I wonder whether para. 3 on page 5 asks the key questions in the right way. To my mind, the three critical questions are:

- (a) what helpful action is possible in the labor market to facilitate adjustment?
- (b) how do adjustment policies affect the functioning of the labor market and, through it, longer-term growth prospects?
- (c) can and should labor market intervention be used to cushion the impact of adjustment on poverty?

In this light, many of the questions in para. 3 seem to be either only tenaciously related to adjustment issues as such (i.e., effectiveness of traditional demand management or the position of women) or overly oriented to "protect" and "preserve" (i.e., human capital of the labor force, specifically "in areas of dynamic comparative advantage"). Before protecting and preserving, it seems necessary first to establish that this is necessary and sensible.

3. Judging from the Latin American and African study proposals which are attached to the overall proposal, fact-finding may fall short of what is desirable. To start with, the main proposal repeatedly talks of distinctions to be made between the tradeables and non-tradeables producing sectors (e.g., paras. 6, 16, 24 (i) and 24(ii)), but the case studies make no specific mention of it, perhaps because it will be difficult to find the data. Next, para. 24 (ii) says analysis in developing countries has to distinguish "at least" between formal urban, informal urban, and rural labor markets. But my reading of the literature is that segmentation along these lines is neither fully proven nor anywhere near as important as this text seems to imply.

4. The case study proposals both list "the behavior of segmented labor markets during adjustment" as an issue to be investigated (both on page 4 and in issue no.7). What follows, however, does not follow through on the three tiers of the labor market laid out by the main proposal and shows one of the few differences in these study proposals. The Latin American proposal seems to look only at formal and informal sector activities, not at the rural labor market. And informal activities are examined only in relation to the worsening conditions of employment in the formal sector. While the African proposal includes a more satisfactory examination of changes in the overall wage structure, it talks only of rural/urban differentials, not of formal/informal differentials. In any case, it would be necessary first to establish that segmentation actually existed and was important in each country studied, and then to see whether and in what form it has survived the adjustment process.

5. The same need to establish facts attaches to the statement towards the end of para. 14 of the main proposal that there are close links between the informal sector and poverty. As far as I can tell, these links are far from fully established. In fact, there seems to be considerable evidence that the poor have labor market affiliations across all sectors, including the public sector, and are not concentrated disproportionately in the "informal" sector. Poverty seems to have more to do with the sector of activity (e.g., concentration in agriculture) and with life-cycle issues (e.g., the young and inexperienced, those with a lot of children below working age etc.) than with formal or informal sector distinctions. Establishing the facts in this regard seems to me to be a precondition for sizing up the role of the labor market in transmitting adjustment effects into poverty and for identifying suitable palliatives.

6. The main study proposal rightly emphasizes the overriding role of political economy in both adjustment and labor market functioning (e.g., paras. 10, 11, 16, 17). This does not receive the same kind of emphasis in the case study proposals. Instead, these proposals emphasize the analysis of a common set of issues in order to improve cross-country comparability and even some of the study countries (e.g., Kenya, Bolivia) are chosen in



part for this reason. Given the country-specific nature of political factors, this raises the danger that important country issues will be downplayed in the quest for comparability. It is hard to assess this danger, particularly since both the longer "issues paper" to be submitted to the April meeting and the results of that meeting - if it took place - are not available.

cc: Messrs. O. Yenal, H. Fleisig

FKahnert:ctb

UNIVERSITY OF CALIFORNIA, BERKELEY

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INSTITUTE OF INTERNATIONAL STUDIES

BERKELEY, CALIFORNIA 94720

215 Moses Hall  
17 May 1988

Ms. Phi Anh Plesch  
Secretary, Research Committee  
Policy, Planning, and Research  
The World Bank  
1818 H Street, N.W.  
Washington, D.C. 20433

Dear Ms. Plesch:

Attached please find review of research proposal as requested in your letter of May 9, 1988. The deadline of May 20, 1988, including mailing both ways, was not exactly realistic but I have done my best.

With my best regards,

Yours sincerely,

*Bent Hansen*  
Bent Hansen

*N2*

Labor Markets in an Era of Adjustment.

A Research Proposal by Ravi Kanbur and Dipak Mazumdar.

Comments by Bent Hansen.

My immediate reaction to this research proposal was that here we have apparently another project joining an already crowded bandwagon. Since, as the authors correctly emphasize, there is on the one hand, "a large literature on the performance of labor markets in developing countries," and on the other, "a large research effort ... underway in the Bank and in other international agencies ... on the impact of adjustment on poverty," it appears imperative, to avoid unnecessary duplication and overlapping, hence waste of resources, that this particular project be carefully designed and structured so as to fill a genuine gap in current research programs and in our knowledge and understanding of contemporary adjustment problems related to balance of payments and international financing developments and not just so as to demonstrate that even the Bank has jumped the bandwagon. (Isn't something like this actually going on in CECDA-N11?)

The proposed project falls essentially into two parts, of which one part would survey existing literature and draw out the main implications for policy. The other part would consist of country case studies. Not unrelated, of course, these are in themselves projects so different in nature that they should be evaluated separately:

(1) Literature surveys, not already undertaken elsewhere from the same point-of-view, are always useful. They may bring to the surface important contributions that have not been noticed by profession or

governments and may, in any case, save these a lot of time. This is especially the case in a fast growing area such as this one. Relevance of the literature selected for review is crucial, however. There was a time when only specific "development theory" was thought relevant for LDCs. The profession has now almost ended up in the opposite ditch with the same theory applied everywhere under all circumstances: What is sauce for the goose is sauce for the gander. The authors are aware of possible limitations of the applicability of theoretical and empirical analysis of labor and macroeconomic policy in DCs but are not correct in claiming that "it generally works with a single, integrated labor market" (p. 16) and that this should be the reason why such theory should not be directly applicable to LDCs. Theories of labor market segmentation, <sup>dual</sup> labor markets, insider-outsider markets, exposed vs. sheltered markets, and what have you, grew out of the analysis of the coincidence of high inflation and high unemployment, i.e., "stagflation" and the impact of external shocks in DCs. Any review of labor and macrotheory for DCs would have to strongly emphasize these aspects. Since, moreover, empirical analysis has been remarkably unsuccessful in corroborating such theories even in countries with plentiful data and the theory itself has been remarkably unsuccessful in dealing with these problems for DCs its applicability to LDCs is by no means a foregone conclusion. Is it not sauce for the goose, why should it be sauce for the gander? One Ely-lecture and several sessions in the last AEA convention (AER, May 1988) are testimony to the inability of both Keynesian and monetary theory in handling contemporary problems of unemployment in DCs. It is also the case that most studies of labor markets in LDCs are of poor quality with the conclusions reflecting the prior **beliefs** of their authors more than anything else. All this, I

think, should be a primary concern for a balanced literature review. It makes such review difficult but also all the more important.

It is a basic problem whether labor markets in LDCS are in fact segmented and to what extent. Opinions are very divided, partly, probably, because countries are very different. In one of the participating ILO countries, Indonesia, one school strongly claims that segmentation is a fact and is important (anthropologists and Papanek et al.), while another school equally strongly claims that there is no statistical evidence for the segmentation hypothesis (neo-classics and Paul Collier et al.). My personal impression is that Indonesian data are too poor to permit definite conclusions. The proposal, paragraph 15, seems to imply that within agriculture there is never segmentation in LDCs. The Indonesian controversy is exactly about agriculture, however, and it is well-known that with sufficient disaggregation some segmentation (typically by sex) will always be discovered. One powerful prior argument about segmentation is related to the time perspective. In the very short term any labor market is highly segmented, in the very long term any labor market is (almost by definition) integrated although admittedly some forms of segmentation may not disappear even in the longest term (sexual, racial, cultural, national). The project is a bit ambiguous at this point but seems to argue against choosing too short a time perspective (vide the criticism of export promotion by reference to the infant industry argument, pp. 13 and 20). The project should make up its mind about the time perspective and should in my opinion operate with a time perspective from the shortest to the longest, not overlooking hereby that the longer the time perspective the less important is labor market segmentation.

Ultimately, of course, the issue of the existence of labor market segmentation can only be settled empirically and that takes me to the country case studies.

(2) Country case studies require careful preparation and selection. It appears to me that the project leaves something to be desired at this point. Random selection of countries is presumably out of the question. In regard to institutions any country may be unique. Availability of financing seems to have been one criterion. This is certainly **necessary** but should not be a sufficient condition. A country selected should in some way also be "interesting" and it should have adequate data and other information. If all countries really are unique, any country should be interesting. From this point of view the selection suggested appears a bit arbitrary (without being random, of course). We are left then with the availability of data which is an indispensable requirement. Availability of labor force surveys, LFS, seems to have been an overriding consideration. Availability of LFS, however, is not enough to settle the issues this project is attempting to tackle. LFSs, more often than not, do not collect wage data and it is typically very difficult, if not impossible, to find matching wage statistics. Both volume (quantity) and wage data are, however, indispensable for this project. The quantity data from LFSs are, moreover, very crude. They give numbers of people with no information about hours worked. They are unreliable on unpaid family labor if at all they include such labor. Their unemployment data are frequently dubious, not only definitionally but also in relation to seasonalities, the latter a particularly difficult problem in agriculture. Considering the unsettled state of the arts in the United States and Northwestern Europe despite the rich data supply of these countries,

to get anywhere for LDCs may require data of an abundance and a quality available only in very few, if any, LDCs. I am, for instance, convinced that the Indonesian data are not sufficient for the purpose.

Summing up:

- (1) The literature survey proposed is probably worthwhile but it must be realistic about the unsettled state of the arts for DCs and the poor quality of the arts for LDCs.
- (2) Country case studies of LDCs is a must if progress is to be made at all. At this point, however, the project needs more preparation. Since data availability is the basic constraint the project might start out with (a) a survey of data requirements, followed by (b) a survey of data availability in all countries. Country selection could then be undertaken. I feel pretty confident that if the project is realistic, countries selected may be counted on the fingers of one hand--at the best. It is highly unlikely that any of these countries should be sub-Saharan.
- (3) What is proposed here does not require any large machinery, initially at least. The authors might do the work themselves in preparing a revised project proposal.

Regional Consultation Form

Preamble: This form is designed to seek the comments of regional chief economists on research proposals that will involve their countries or regions. Its purpose is to allow the Research Committee to assess the extent of regional coordination and support for the proposed study.

Research Proposal Title: Labor Markets in an Era of Adjustment

Country Coverage: Tentative:  
Latin America - Brazil, Argentina, Bolivia, Costa Rica  
Africa - Kenya, Cote d'Ivoire, Ghana  
Asia - Malaysia, Thailand, Indonesia

Comments by Chief Economist (Please indicate whether you are satisfied with the level and form of coordination and liaison undertaken by project sponsors with the relevant operational units in your region. Also indicate any expression of support and in case of no support, please state the reasons):


sent to : o'brien  
Selowsky  
yeast  
5/17/88

Signature:

Date:

Please return the form to Phi Anh Plesch (S-13-137) by May 27, 1988 c.o.b.



FROM : Luis A. Riveros, Economist CECMAG 

TO : Phi Ann Plesh, PPRRA

EXT. : 61762

Date : May 15th, 1988

Subject: Review of the Research Proposal "Labor Markets in an Era of Adjustment".

Please, find attached my comments on the above research proposal. In short, my opinion is that the proposal is still very preliminary and that a description of a common methodology to investigate the various subjects in different countries would be indispensable in order to consider it for funding. At this stage it is not clear whether this proposal consist of an analytical research or just simply in a review of existing literature. In any case the accompanying budget is not entirely justified, particularly because of the significant amounts provided for meetings which would be, in any case, the use of most of the resources provided by the search committee.

Subject: Review of Research Proposal : "Labor Markets in an Era of Adjustment"

General Comments:

This proposal is still very preliminary. It covers a very wide range of problems and geographical regions, but without expliciting the research methodology to be used, nor the analytical framework conceived for the country studies. The policy implications are not explicited and the specific countries to be analyzed are still undefined.

The proposal is not clear on whether the research consists of building an analytical model to be implemented with data at a country level, or it is simply a review of the existing literature. Given the suggested use of the final volume in training activities, the underlying idea of this research is probably closer to the latter. If so, the project seems too expensive, particularly because the literature on the issue is rather scarce in LDCs. On the other hand, if some analysis is going to be performed at a country level (as suggested by many references to survey results in the attachments to the proposal), the absence of a common suitable analytical model is troublesome.

Besides, the set of countries to be studied has not been identified yet. When specific countries are indicated, there is not satisfactory explanation of the interest of that individual specific country study. For instance, and not because of the interest arising from its adjustment experience, the proposal suggests to include include Colombia because of the externalities provided by another project in which one of the authors is involved. Furthermore, a more careful justification for the issue papers is needed. Some of them are too broadly defined and, even if one agrees on their relevance, the specific topics to be discussed or emphasized are simply unclear. In some cases, the issues to be analyzed are not necessarily relevant. This is, for instance, the case of the proposed study on DCs' labor markets in order to extract some lessons regarding the performance of labor markets in LDCs. I believe the problems are simply very different.

With regard to the budget, it is important to note that almost 40% of the total cost corresponds to the financing of "meetings". There is a budget of \$50,000 for country studies in each region, which is not totally justified in the corresponding attachments to the document. Besides, there is no a specific

proposal attached to the project for the case of Asia. Finally, the funds to be raised (from RSB-IBRD and ODA-London) would cover the expenses of two meetings (April 89 and November 89) plus 50% of the country studies for Africa and Latin America, the issue papers and some other administrative costs. Consequently, the use of funds of the Research Committee would not be covering research expenses.

I believe the research proposal should not be approved at this point because it is still too sketchy. It only contains a general description of the issues to be studied and more justification is needed for most of the budgeted expenses. The authors may be invited to make a new presentation to explain the methodological aspects absent in the current version. At the same time, they must explicit and justify the countries to be included and the collaborators which will be involved in both the issues papers and the country studies.

#### SOME SPECIFIC COMMENTS

The issues to be investigated are too broadly defined (particularly those raised in connection with output adjustment and flexibility of the labor markets, or with labor markets and poverty). I do not believe that with a pay of \$5,000 the authors will be stimulated to produce a good paper containing discussion of a model and review of the literature. It would be advisable to concentrate in a few specific issues from the beginning. Is there any coordination with research carried out at the Bank and other institutions?

The issue of "women and the labor market" is not very motivating from the point of view of adjustment (in any case, why not the rural worker, the young or the older members of the labor force?).

How are the authors going to deal with the overlapping among issues paper (for instance, how to differentiate output and labor market flexibility from the issue "Medium-run adjustment and long run growth"?) Once again, more detail is needed regarding the content and methodology of the issue papers.

Surprisingly the authors did not include Mexico in the studies for Latin America. The proposal mentions Brazil, Argentina, Bolivia and Costa Rica, but the attached document by Berry and Horton also mention Chile, Colombia and Guatemala. This has to be clarified.

I am not familiar with the background and production of the institutions mentioned in page 22. The authors could provide us with more information as to why they are useful in the context of this proposal. Surprisingly the PREALC and JASPA offices of ILO are not included, in spite of the facts that they are the most

trained in this area, and they can provide with suitable information. If ILO is co-financing this study it would not be difficult to involve their regional offices in the preparation of the country papers.

How can the proposal mention 6 issue papers while the budget alludes to 7?

The money budgeted for meetings (\$55,000 each meeting) is presumably too much and it is not justified in the presentation. It is not clear what are those meetings for, and who is going to participate. Are there cheaper alternatives to coordinate the country studies?

The summary budgets have to be explained more in detail. For instance, what does "analysis" mean?

Why do the attachments keep mentioning "the Canadian counterpart"? Is there already any commitment?

The bibliography available on labor market experience in Latin America is much vaster than the one reviewed for the proposal. I believe DRD-IBRD produced many documents with regard to adjustment and labor markets for countries like Brazil, Argentina, Chile, Peru and Colombia.

How are the issues raised in the case of Latin American countries going to be studied? They seem to cover everything, but there is not any clue on how are the issues connected among themselves or on what methodology will be used to analyze the empirical information.

The African countries included should be selected more carefully if the crucial aspect to be considered is adjustment (why not Morocco or Zimbabwe?)

The proposal is lacking specific references to policy issues, particularly in the context of how a better understanding of the role of the labor market may contribute to improve the policy stance.

It is important to include the CVs of the consultants and other researchers involved in the proposal.

Finally, if there is a new presentation of this proposal, it will be very important to include an abstract indicating the relevance and methodology of the study, purposes of each stage and the importance for Bank's operational activities.

# OFFICE MEMORANDUM

DATE: May 12, 1988

TO: Mr. Friedrich Kahnert, ASIVP

FROM: Phi Anh Plesch *TAP*

EXTENSION: 31063

SUBJECT: Research Proposal: "Labor Markets in an Era of Adjustment"

Thank you for agreeing to review the enclosed proposal for the Research Committee. I would greatly appreciate it if I could receive your confidential report on or before May 25, 1988.

Enclosure

# OFFICE MEMORANDUM

DATE: May 6, 1988

TO: Mr. Luis Riveros, CECDA

FROM: Phi Anh Plesch, PPRRA *TAP*

EXTENSION: 31063

SUBJECT: Research Proposal: "Labor Markets in an Era of Adjustment"

Thank you for agreeing to review the enclosed proposal for the Research Committee. I would greatly appreciate it if I could receive your confidential report on or before May 13, 1988.

Enclosure

# OFFICE MEMORANDUM

DATE: May 3, 1988

TO: Mr. Dipak Mazumdar, EDIST

FROM: Phi Anh Plesch, PPRRA *FAP*

EXTENSION: 31063

SUBJECT: Research Proposal: "Labor Markets in an Era of Adjustment"

This is to acknowledge receipt of your research proposal on the above topic on May 2, 1988. The proposal will be reviewed by the Research Committee and decisions on its funding will be communicated to you as soon as the review process is completed.

cc: Mr. T. King, EDIST



# Record Removal Notice

<b>File Title</b> Labor Markets in an Era of Adjustment - By D. Mazumdar		<b>Barcode No.</b>  30135988		
<b>Document Date</b> 5/2/1988	<b>Document Type</b> Form			
<b>Correspondents / Participants</b> D. Mazumdar - Principal Supervisor T. King - Division Chief C. Peri - Administrative Budget Staff Christopher Willoughby - Department Director				
<b>Subject / Title</b> The World Bank research program Request for Research support budget (RBS) Funding				
<b>Exception(s)</b> Personal Information				
<b>Additional Comments</b>		<p>The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.</p> <table border="1"><tr><td><b>Withdrawn by</b> Tarsica Morgan</td><td><b>Date</b> December 30, 2019</td></tr></table>	<b>Withdrawn by</b> Tarsica Morgan	<b>Date</b> December 30, 2019
<b>Withdrawn by</b> Tarsica Morgan	<b>Date</b> December 30, 2019			



**Labor Markets**

**in an**

**Era of Adjustment**

**Ravi Kanbur**

**and**

**Dipak Mazumdar**

December 1987  
Revised April 1988

## **Labor Markets in an Era of Adjustment: A Summary of the Proposal**

### **1. Objective**

The objective of the project is to provide a detailed study of the role of labor markets in the problems of stabilization and structural adjustment in developing countries. The way the labor market performs is crucial, first, for the ease with which the structure of production can be adjusted in appropriate directions, and secondly, in determining the impact of adjustment policies on poverty and the distribution of income. It should be noted that the labor market has a wide connotation for developing countries. It includes wage labor as well as the self employed found in large numbers in the urban informal and rural sectors of the economy.

### **2. Sources**

The work on the project will draw on the literature of labor markets in developing countries, and try to focus the traditional concerns in this literature on the problems of adjustment (See Section 2). Contributors to the issues papers will also utilize the results from the analysis of labor markets in developed countries, particularly in the fields of stagflation and of open economy models (See Section 4).

Apart from the published literature the project will review and utilize the large amount of ongoing work in the general area of stabilization and adjustment sponsored by a number of international agencies, e.g. ILO, WIDER, UNICEF, ODA, OECD etc. (See Section 3). While work on these studies reflect the specific objectives of the agency concerned, they all have some discussions of a conceptual or empirical nature which have a bearing on our project.

### 3. Proposed Output

The project aims at producing two distinct sets of output:

- (i) A volume consisting of a number of issues papers and some case studies of developing countries whose experience illustrate the key issues discussed.
- (ii) An annotated bibliography of the large and growing literature on adjustment problems mentioned above (together with an introductory essay on the major results).

The final output of the project will be preceded by a number of intermediate products which can be used in EDI seminars at an early stage. For example, an initial attempt at a selective and synthetic essay on the results of existing and ongoing research will be made as part of the paper by Kanbur and Mazumdar to be circulated to authors of case studies in the summer of 1988.

### 4. Organization and Planning of the Project

The project will be organized in four phases under the guidance of Ravi Kanbur, (Warwick University (See C.V. enclosed), and Dipak Mazumdar (EDIST).

In the **first phase** (Jan 87 and Jun/Jul 88), the work on the annotated bibliography will be initiated. Also, on the basis of this proposal, a small workshop will be held in April 1988 at Warwick to sharpen the focus further and agree on a firm chapter outline. The search for authors of issues papers and country studies will be completed by June 1988.

In phases II and III the authors associated with the project will finalize their papers, interacting with each other and the project coordinators at two meetings in

April and November 1989. We envisage that an important part of the project will be the active participation of contributors from institutions in developing countries, particularly on the case studies. Hence provision has been made for meetings to bring the participants together.

The work on the annotated bibliography will continue during this period. The **final** phase (ending in June 1990) will consist of the editing of the papers into a volume, and of the writing of the synthesis and overview chapter by Kanbur and Mazumdar. (See Section 6 for details).

## **5. Budget and Financing**

The Budget for the whole project is \$370K. As detailed in section 7, co-financing of \$175K has already been found through EDI, CIDA and ILO. This leaves \$195K for which further financing is required.

## Labor Markets in an Era of Adjustment

### 1. Introduction

1. During the 1980s a number of developing countries have adopted explicit programs of Structural Adjustment. The historical developments leading up to these programs include external shocks and inappropriate internal policies. There were external shocks such as the increase in oil prices in the late 1970s, followed by a global recession which had a severe impact on commodity prices. In the face of these shocks most governments did not adjust their fiscal and monetary policies sufficiently quickly, which led to growing internal and external imbalances. Given this situation, there was a need for short-term stabilization as well as medium to long term structural adjustment. The latter involves policies such as reducing public sector employment, eliminating price distortions, export promotion and industrial restructuring.

2. Many of these adjustment programs have been put into place with Bank assistance, and in fact for several countries these programs have been running for three or more years. The major rationale behind these programs is to assist countries in adjusting to the changing realities of international markets by shifting the structure of production in appropriate directions. Such a shift in structure towards more export - oriented production--whether in industry or in agriculture--requires a shift in factors of production between the different sectors. Clearly, therefore, labor markets and their response to economic forces play a central role in

the adjustment process. A second concern with recent adjustment policies has been their impact on poverty and the distribution of income. Here again the way labor markets respond to changes in macro economic policies in the short and medium term is crucial to the outcome.

3. The general concerns above translate into specific policy questions. They include: How effective is traditional demand management as a tool of employment policy in the new circumstances, and what support (if any) should be given to wage indexation proposals? What are the issues in reform of public sector employment and wage policy? What are the short-term policies needed to preserve the human capital of the labor force under current conditions? How is the position of women in labor markets to be protected and enhanced? What are the new policies that can be implemented to protect and encourage a modern sector labor force in areas of dynamic comparative advantage? These and other specific policy questions on labor markets during the era of adjustment form the basis of this project.

4. There is of course a large literature on the performance of labor markets in developing countries. But this is a diffuse literature covering a number of themes. Our idea is to focus the results of this literature on the current policy issues raised by the structural adjustment process. Similarly, a large research effort is now underway in the Bank and in other international agencies (UNICEF, FAO, OECD, ILO, WIDER, IMF) on the impact of adjustment on poverty. However, the studies being produced reflect the diverse interests of the agencies involved. There

is a need to synthesize this work and to link it to the concerns of the labor markets literature. The object of this project is to produce such a synthesis, together with a set of studies which will prove useful in the preparation of seminar and training material for policy makers in LDCs. In section 2 below we provide a brief discussion of how the traditional themes of the labor markets literature tie in to the emerging policy concerns in this area. On the basis of this intersection we then proceed to a detailed discussion of the project structure.

## **2. New Policy Issues and Traditional Themes**

5. What are the main new policy concerns? The need for structural adjustment is indicated, in the first instance, by an external disequilibrium as the result of absorption exceeding output (or, put another way, expenditure exceeding income). The disequilibrium can arise either because of external shocks or because of internal reasons to do with inappropriate policies. But if the resulting debt is unsustainable, then adjustment is a necessity. But adjustment can of course be accomplished either by reducing absorption or by increasing output. We may perhaps refer to the former as macroeconomic adjustment and to the latter as structural adjustment (see Kanbur, 1986). Concentrating on the latter, as being the major thrust of Bank-assisted programs, we can immediately identify several strands of thought.

6. One strand sees the problem as essentially one of increasing the output of the tradeable sector by removing price distortions which favor non-traded sectors

and import substitution sectors rather than export sectors. This is the line of argument which leads to the policy recommendations (as in the case of Cote d'Ivoire) to increase the producer price of primary exports and to remove barriers against manufactured export industries. Yet another strand of thought sees a supplementary, and perhaps equally important, problem as being one of increasing output generally by freeing up rigidities in factor and output markets, and by improving the "X-efficiency" of parastatals and other public organisations. These strands of argument, and the policy recommendations that emanate from them, are complementary to each other. But the former highlights an important distinction--that between the tradeables producing sector and the non-tradeables producing sector--which is not always present in the traditional labor markets literature. In the latter, labor markets are classified according to criteria such as their degree of "formalness" as measured by minimum wage legislation, unionization or other institutional features. But formal labor markets can be tied in to tradeable and non-tradeable output markets, as is the case for many manufacturing industries. Similarly a competitive labor market can be present in sectors producing primary commodities for export as well as in an urban informal sector which produces non-traded output.

7. A major challenge which the current policy concerns pose to the traditional labor markets literature is thus to combine the analysis of segmented labor markets with sectoral breakdown on the output side which matches more closely the traded/non-traded divide which lies at the heart of the structural adjustment



problem. However, so far as the general question of improving the efficiency of the economy is concerned, the traditional concerns of labor market efficiency fit in very well with modern policy interest.

8. As the structural adjustment process has gathered pace, there has been a growing concern about the distributional consequences of adjustment, as reflected in recent policy papers at the IMF, the Bank's submission to the Development Committee, projects within the Bank to analyze the social dimensions of adjustment and perhaps amend programs accordingly, and projects in many international agencies (OECD, UNICEF, FAO, ILO) to investigate the problem in relation to their own terms of reference.

9 The details of these projects are taken up in Section 3 below, but there appear to be two distinct aspects to this distributional concern. The first is about the impact of the adjustment on the already poor. This poverty focussed concern has led to a number of recent contributions (Addison and Demery, 1985, Kanbur, 1987) and it ties in very well with one of the traditional themes in the labor markets literature which we identified below --the contribution of labor markets and their operation to poverty and to poverty alleviation. It stands to reason that labor markets must be an important intermediary between structural adjustment and its impact on poverty, and we argue below that the existing literature is well poised to help in the analysis of this intermediary role.

10. The second aspect of distributional concern relates to the upper and middle end of the distribution. It appears in the worry that if the adjustment process makes powerful sections of the society worse off, they may mobilize to undo the process or at least prevent its full operation. Through cost of living adjustments or other means these groups may well succeed in restoring their standard of living, but at the expense of the adjustment process (Braverman and Kanbur, 1987). This political economy argument finds an echo in the traditional labor market literature's concern with wage indexation, the wage-price spiral, and inflation.

11. The above is an account of the broad policy concerns in the era of adjustment. This is not the place for a detailed discussion of specific policy issues, which are in any case likely to be country-specific. But these specific questions, such as the role of public sector employment and wages, the position of women in the labor market, or manpower and training policies, do fall under the broad headings we have sketched out and will be treated in the set of studies we propose (see Section 4). We turn now to the traditional labor markets literature to see how the concerns in that literature mesh with the emerging policy issues in adjustment.

12. One can identify several well established themes in the literature on labor markets in developing countries. The existence and nature of segmented labor markets, because of the prevalence of the family mode of production, has been reviewed by Sen (1975) and Mazumdar (1987), among others. This theme also goes back to the surplus labor models of Lewis (1954). The central idea is that

because of a number of technological and "mode of production" features, the wage mechanism will not necessarily operate to clear the labor market, with resulting unemployment. This theme has been taken up again in the recent work on the efficiency wage and its labor market consequences (see Dasgupta and Ray, 1986).

13. Related to the above idea is of course the notion of imperfections caused by an institutional wage being fixed in the modern or formal sectors of developing countries. The formal sector can encompass both private firms and government employment. The inefficiencies caused by such rigidities have been investigated by many, starting from the work of Todaro (1969) and Harris-Todaro (1970). The consequences for trade policy have been analyzed by Bhagwati and Srinivasan (1974), and for factor mobility and growth by Corden and Findlay (1975), among others. However, less has been done on how these labor market features interact with macroeconomic adjustment (Edwards and Edwards, 1987, is a recent exception). Tied into the Harris-Todaro analysis, and emanating from it, is a large theoretical and empirical literature on rural-urban migration (see the review in Yap 1977, and Mazumdar 1986). The costs of migration, in particular the fixed costs, have been discussed in Bannerjee and Kanbur (1981), and these costs are of obvious relevance in an adjustment context where labor has to move between sectors--which may also mean a move between regions.

14. Another area of traditional concern is the link between the operation of labor markets and the persistence of poverty. In the formal sector this has crystallized

around the education-income connection and whether the human capital aspects of education dominate the screening aspects. The literature here is a large one, covering both theory (e.g. Arrow, 1973) and empirical analysis (Pscharopoulos 1985). In the informal and rural sectors the discussion has focussed on the determinants of real wages in these sectors, and the extent to which poor households rely on this income. The landlessness and poverty nexus in Asia clearly speaks to this question. The rapid growth of the urban informal sector in Asia, and in Africa and Latin America, and the close links between presence in this sector and poverty, have led to a literature investigating these links (e.g. ILO 1972, Mazumdar 1981, Bannerji 1983, Fields 1979)

15. Further traditional themes which tie in closely to concerns in structural adjustment programs relate to the impact of input subsidies on the demand for labor. Connected to this are output price policies and their effects on labor markets and income distribution (cf. Timmer 1983, Mellor 1983). Since current adjustment programs seem to have as an important component a reduction of agricultural subsidies, the traditional literature can once again speak to up to date policy issues.

16. In the realm of macroeconomics, two traditional themes in the literature on labor markets in less developed countries are (i) wage indexation and (ii) the political economy of labor markets and institutions. Clearly these two are related to each other and both are moreover related to the question of how the labor side is treated in LDC macromodels. The Latin American literature is particularly

prominent here (Behrman and Hanson 1979, Wachter 1979), but Taylor (1983) applies the general framework to other countries too. The question of wage indexation ties into one of the major policy concerns at the moment - how to change the relative price of tradeable and non-tradeable goods. In the traditional literature on devaluation this issue comes to the fore because of the assumption of nominal wage rigidity - devaluation is seen as the method of lowering the real wage and hence the relative price of non-tradeable goods. In many West African countries a similar issue arises even though devaluation itself is not institutionally possible, as in the case of the UMOA countries. Here we find attempts to "simulate" a devaluation through export subsidy and import tariff schemes.

17. But a policy which relies on lowering the real wage opens up two questions - whether the policy will be sustainable in the medium term, and whether it is advisable in the longer term. In the medium term the political economy of labor markets and institutions is important. The power of unions, be they private sector or government sector, is crucial. Many policies have had to be reversed as a result of opposition, sometimes violent opposition, from urban organised labor - there are many examples in Latin America, and there are recent cases in Sudan, Morocco and Tunisia. These political economy questions have to be addressed in any policy oriented discussion of labor markets and adjustment.

18. In the longer term, there is the substantive issue of whether increasing the production of traditional exports is indeed the right strategy. Short term

comparative advantage need not translate into the appropriate long term strategy. The development of modern industry, and the manpower associated with it, will not necessarily be well served by the short term imperative of getting the external disequilibrium right. There is a literature on dynamic comparative advantage which incorporates learning by doing and scale effects (see, for example Findlay 1973). While not immediately relevant to the short term disequilibrium, it is important nevertheless for us to keep in mind that short to medium term policies do have long term effects, a link which is emphasized in our project.

### 3. Ongoing Work

19 There is thus a large existing literature on labor markets in developing countries which can speak to the current policy concerns on adjustment. However, as noted earlier there is also a considerable amount of ongoing research within international agencies which is relevant to our project. The ILO has conducted a series of studies on stabilization, adjustment and poverty (see ILO, 1986), and UNICEF has recently published the results of a project on the impact of adjustment on children (see Jolly et.a., 1987). This is a project which is continuing and will be producing results in the future. The ODA in U.K. has also conducted a series of case studies (introduced in Addison and Demery, 1985) which are now being finalised for circulation. A major project launched by WIDER in Helsinki on the experience of stabilization policies in LDC's is nearing conclusion as far as its first phase is concerned. (See Taylor 1987) The Development Centre of the OECD has

made employment, poverty and adjustment a major theme of its research program for the next two years, and has launched a set of case studies, some of which emphasize econometric modelling of the impact of adjustment policies. Similarly, the FAO has also conducted studies on this topic, with a focus on agriculture.

20. The IMF produced a Board paper in 1985 on the impact of Fund programs on income distribution, and has started on a set of case studies - the first six of which are due for completion soon. Within the World Bank itself, several research initiatives are underway. The Social Dimensions of Adjustment (SDA) project is a joint UNDP/World Bank project located in the AF1, with the object of analysing and monitoring the impact of Bank assisted programs on the poor in Africa. While Africa is the region of special concern (there is more ongoing work in the Human Resources Division of PPR) the situation of the poor in Latin America during the 1980s has also been causing concern (e.g. see World Bank 1986). In fact, the Debt and Macroeconomic Adjustment division of the Country Economic Department in PPR has made the general question of impact on poverty part of its regular work program.

21. As can be seen, a large and diverse research effort is under way in international agencies on adjustment and poverty. There is already some output, but much of this effort will bear fruit over the next two years. Our project will certainly benefit from this research. Indeed we see one of our tasks as being the synthesising of these results from the diverse groups and our proposed annotated bibliography (see below) will pay due attention to the most recent research.

However, our project will be distinguished by a clear focus on labor markets. Our intention is to use the literature in a directed way so as to produce a synthesis for those who are having to formulate policy on the problems of labor markets in the adjustment process.

#### **4. The Proposed Set of Studies**

22. The discussion in Sections 2 and 3 should make clear our argument that the intersection between (i) traditional themes in the literature on labor markets in developing countries and (ii) the emerging policy concerns in the era of structural adjustment, is a fruitful area of investigation.

23. We propose a set of issue-oriented papers, and a set of country case studies which would examine the role of labor markets in adjustment. The issue oriented papers would speak to the general conceptual framework and background under specific headings. They would review the existing literature and draw out the main implications for policy. The country case studies would approach the question from the other direction. Starting from the specific policy questions in their country, and the specific institutional features of the labor market, they would utilise the conceptual frameworks available in the literature - as reviewed in the issue oriented papers, for example - to draw country-specific policy conclusions.



24. At this stage we envisage around seven issue-oriented papers, ten country case studies, and one synthesising paper which pulls together the major policy conclusions. It is too early to specify the exact division of areas, and the exact choice of countries. We will be seeking advice on this throughout the early stages of the project and at a meeting called specifically for this purpose (see Section 6). We provide below a tentative list of areas to be covered by the issue papers:

(i) The Labor Sector in Macro-models

The first issues paper (or perhaps two papers) might seek to summarize the major conclusions from the theoretical and empirical analysis of labor and macro economic policy in developed countries, many of which have also been subjected to problems of internal and external imbalance in the last decade or so. The two most relevant strands in this literature are (a) the analysis of stagflation and (b) the theory of the open economy which distinguishes between tradable and non-tradable sectors (and sometimes within the former between a booming and a lagging sector). The major limitation of this body of work from the point of view of LDC's is that it generally works with a single, integrated labor market. Nevertheless the analysis is of importance in defining the links between productivity growth, real wage and the external sector - economic relationships which are of significance in any economy. Policy questioning on which this literature focusses include: (a) the importance of demand management policies to take account of autonomous cost-push factors emanating from the labor market and/or the external sector, and (b) the

differential impact of external imbalance on the tradable and non-tradable sectors, and the use of macro-economic instruments to deal with such disturbances.

(ii) Output Adjustment and the Flexibility of Labor Markets -  
Segmentation, Migration and Unemployment.

When we move to the analysis of less developed economy the non-homogeneous character of labor markets, - distinguishing at least between formal urban, informal urban and rural labor markets - has to be explicitly introduced. As mentioned earlier the problem is complicated because the distinction between the tradable and non-tradable sectors on the output side do not coincide with the differentiation between the major segments of the LDC labor market. This means that in some LDC's more policy instruments will be required to tackle the problem of adjustment than in envisaged in the traditional model of the open economy. For example, a change in the real exchange rate to favor the tradable sector could lead to higher income of farmers in the rural sector as a whole (if subsistence and cash crop production are competitive), and thus increase wages, and prices in the non-tradeable sector by increasing the supply price of rural-urban migrants. This is a way in which the real exchange rate instrument may be blunted rather than by real wage rigidity as in traditional models.

Other barriers to the movement of labor, e.g. those connected with migration, may also hamper the process of adjustment which requires a shift of factors from non-tradeable to tradeable sectors. Current policies seem to be premised on the effectiveness of wage and price signals in bringing about this shift.

What is the empirical evidence so far as labor markets are concerned? The paper will review the conceptual and empirical literature and perhaps develop a typology of labor markets which will help in classifying different types of policy problems in different types of countries. In general, the less such "structural" problems are recognized, the more severe the demand deflation which is needed to achieve internal and external balance, and the greater the danger of "over-kill".

(iii) Wage Indexation and the Political Economy of Adjustment.

It is now becoming clear that any analysis of adjustment policies must take into account the political economy of the adjustment process. It is this which will determine the sustainability of the adjustment program in the medium term. Of course the political economy question is a very broad one, covering all aspects of interest group conflict in LDCs (see Braverman and Kanbur, 1987). In the context of this project, we will maintain a sharp focus on labor markets. The traditional literature on wage indexation speaks to this question, as does the literature on unionisation in LDCs (particularly important in Latin America). Similarly, public sector employment and wage policy would be an important part of the adjustment process in all countries, especially in Africa. This paper would review the literature under these headings, paying particular attention to regional variations.

(iv) Labor markets and Poverty.

While there is a large literature on poverty, this paper should focus on how labor markets interact with the poverty problem. This may be particularly important in the case of multiple income families, for whom shocks in one labor market may be compensated for by development in another. For example, a household which has employees in both tradeable and non-tradeable goods sectors is "diversified" with respect to changes in wages in these two sectors. How important is such diversification among poor households? This paper will review the empirical evidence of this and other issues which are important for linking adjustment and poverty through the labor market.

(v) Women and Labor markets

While some coverage of the position of women in labor markets could be achieved in a general discussion of labor markets and poverty, we feel that the topic is sufficiently important to deserve a paper on its own. The literature here is even more diffuse than in other areas under the heading of labor markets. Moreover, some of the interesting work is in the non-economic literature (see Behrman 1987, and Hariss 1987, for examples of the economic and non-economic approaches to the problem). It would be useful to have this literature reviewed and focussed on the current policy concerns.

(vi) Medium-run adjustment and long-run growth: The role of labor markets.

This is perhaps the most challenging of the issue papers. It will try to follow through on the impact of adjustment policies - which are designed to restore external equilibrium in the medium run - on long run growth. This is a broad area but the focus will be sharpened by the concentration on labor markets. A major concern is with policies (sometimes call "stagnationist") which achieve sharp reduction in real wages to facilitate adjustment at the cost of depressing potential productivity growth in the longer run. The paper will cover long-run comparative advantage versus short-run adjustment, learning by doing and returns to scale. It will assess an argument which seems to have been lost in the current policy imperatives to support exportables - is there a case for continued protection of certain industries to allow them time to develop and be competitive in international markets? A review of the literature followed by a policy analysis which addresses such questions defines the content of this paper.

25. Turning now to the case studies, a regional balance between Asia, Africa and Latin America will be maintained since different issues arise in the different regions. Although the exact number and composition of case studies will depend on the identification of suitable authors, we would tentatively envisage a total of ten studies. At this stage, the countries being discussed are Brazil, Argentina, Bolivia and Costa Rica in Latin America (see attached study proposal by Berry and Horton); Kenya, Côte d'Ivoire, and Ghana in Africa (see attached study proposal by Milne and Helleiner); Malaysia, Thailand and Indonesia in Asia (where cofinancing is available from the ILO--see section 7).

26. These studies will be edited to form a volume entitled "Labor Markets in an Era of Adjustment." Apart from the issue papers and the case studies, we will have an overview introductory chapter synthesizing the main policy conclusions. In addition, we propose that the project produce an Annotated Bibliography of this large and growing literature, the most important items of which will be distributed to participating LDC institutions as discussed below.

### **5. Participants and Audience**

27. The intended audience for the results of the project, either in the form of the studies or in the form of training material based on the studies, are policy makers and economists in LDCs who are having to face the problems of labor markets in an era of adjustment. For these practitioners and local researchers the volume will bring together the existing literature and country experience so as to better inform their own policy analysis. The proposed annotated bibliography will be useful as a handy compendium of the literature which will also prove useful as a basis for teaching and training. Moreover, the final output of the project will be preceded by a number of intermediate products (see Section 6) which can be incorporated into EDI Seminars at an early stage. For example, an initial attempt at a selective and synthetic essay on the results of existing and ongoing research will be made as part of the paper by Kanbur and Mazumdar to be circulated to authors of case studies in

the summer of 1988. Also the authors of studies, and Kanbur and Mazumdar, can act as resource persons for EDI Seminars as the project progresses.

28. Our intention is to have significant participation by LDC based economists in the preparation of the studies, and to involve their institutions--some of which will overlap with the EDI's partner institutions--in the dissemination of the results via the conferences and by ensuring that major, and particularly recent, papers are copied and sent to these institutions so that they can build up their material in the area of labor markets and adjustments. It is clearly too early to make a definite list of authors and institutions, but we would envisage possible participation from CIRES (Cote d' Ivoire), CIEPLAN (Chile), FGV (Brazil), IDS (Kenya), University of Zimbabwe, University of Lagos (Nigeria), MIDS (India), among others. A substantial portion of the budget (see Section 7) which devoted to meetings which will bring participants from LDCs together with their DC counterparts. The benefits of such interaction for participants from LDC institutions will be an important output of the project.

## 6. Organization and Timetable

29. The project is scheduled to last for two and a half years, from January 1, 1988 to June 30, 1990. The studies will be coordinated by Dipak Mazumdar (World Bank) and Ravi Kanbur (University of Warwick), who will edit the final

volume. The project as a whole will be overseen by a steering committee comprising of representatives from EDIST, EDIEM, and elsewhere in PPR.

30. We envisage the project as having four distinct phases. In the first phase, a workshop will be held in April, 1988, to sharpen the focus further and agree on a firm chapter outline. After the meeting Kanbur and Mazumdar will circulate a longer paper containing suggestions for the issues to be tackled in the country studies. The search for issue paper and country study authors will already have been initiated and will be finalized by June, 1988, the end of the first phase of the project.

31 During the second phase of the project authors will prepare material and write the first drafts of their papers, to be discussed at a conference in April 1989. These papers will also be disseminated widely as discussion papers. On the basis of the comments received, authors will continue work on their papers during the third phase of the project, from April 1989 to October/November 1989. The completed papers will be discussed at the final conference in November 1989. The final phase will consist of the editing of these papers into a volume, and of the writing of the synthesis and overview chapter by Kanbur and Mazumdar. The volume will be delivered for publication by June 30, 1990.



## 7. Budget

32. The table below presents a preliminary budget by category of expenditure. Category 1, expenditure during the first phase of the project and for the April 1988 workshop, is already covered by a grant from EDI (TMPC). The second category of expenditure is the largest, and consists of payment for country studies. Detailed proposals for African and Latin American studies are attached. These will be co-financed by EDI and CIDA. The Asian case studies will be financed by the ILO as part of a larger project on labor markets in Southeast Asia. Category 3 consists of payments for issue papers--seven papers at \$5K each.

After the country studies, the second largest categories of expenditure are for the two conferences at the University of Warwick, which form an integral part of the project. Taking into account air travel for L.D.C. and D.C. participants at the economy class rate, and the costs of local accommodations, these meetings are costed at \$55K each.

There follow a number of categories of smaller expenditure items, including research assistance for the production of the annotated bibliography and secretarial assistance throughout the 2 1/2 years of the project. Category 8 is essentially reproduction and dissemination costs for papers at the meetings which are expected to be large, given the size of the conferences, the expected length of papers, and the fact that around 20 papers are being produced. In addition, we would like to

disseminate the first drafts of these papers, which will be produced for the first conference, as widely as possible--especially to L.D.C. institutions--in discussion paper form. Category 9 accounts for the costs of such dissemination for around 20 papers. Category 10 is the fees for the principal consultant (Professor Kanbur).

The total budget is \$370K. Of this \$175 has been raised from EDI, CIDA and ILO which leaves \$195K to be found from other sources.

## Budget (000 Dollars)

1. First Phase/Warwick Workshop, April 1988	<u>25</u>
2. Country Studies	
Africa (see attached proposal by Milne/Helleiner)	50
Latin America (see attached proposal by Berry/Horton)	50
Asia (see above on co-financing)	50
	<u>150</u>
3. Issue Papers	
Seven papers at \$5K per paper	<u>35</u>
4. First Meeting, University of Warwick, April 1989	
Accommodation (35 participants for 3 nights) + local travel	15
Air travel, L.D.C. participants (10 x \$2K)	20
Air travel, D.C. participants (10 x \$2K)	20
Total	<u>55</u>
5. Second Meeting, University of Warwick, November 1989	<u>55</u>
6. Research assistance for annotated bibliography and volume editing	<u>10</u>
7. Secretarial Assistance	<u>10</u>
8. Photocopying (50 copies of 20 papers of 50 pages each) + postage + telephone for the two meetings	<u>10</u>
9. Wide dissemination of first drafts as Warwick discussion papers	<u>10</u>
10. Fees (Kanbur)	<u>10</u>
<u>Total Budget</u>	<u>370</u>

Cofinancing

EDI: First Phase/Workshop	25
EDI: (50% of African and Latin American Case Studies)	50
CIDA: (50% of African and Latin American Case Studies)	50
ILO: (Asian Case Studies)	<u>50</u>
Total	<u>175</u>
<u>Funds to be Raised</u>	<u>195</u>
Application to RSB	98
Application to ODA, London	97

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Labour markets in Latin America in an era of adjustment:

Study proposal

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February 1988



## Introduction

The debt crisis and ensuing recession in developing countries have provoked an extensive examination of the possibility of structural adjustment. One crucial aspect of the ability to adjust depends on the labour market: mobility of labour between the production of tradeables and nontradeables, between different sectors of the economy, and between different geographic areas, is vital to the success of adjustment. Likewise the downward flexibility of the real wage affects the path towards adjustment. The labour market also plays a major role in intermediating between structural change and income distribution. Macro theories and models invariably consider the main aggregate labour market indicators such as unemployment and real wages.

At the same time microeconomic studies of the labour market have frequently examined institutions and rigidities in labour markets which would affect the success of adjustment: these include segmentation, persistence of open unemployment, minimum wage legislation, unions, and the allocative efficiency of migration.

It is proposed that a small number of country studies be undertaken for Latin American countries, synthesizing the macro and labour market literatures, to examine the role of labour markets during an era of adjustment. The aim is to use the studies, and cross country comparisons between the studies, to derive lessons of value for policy makers. These studies will be undertaken collaboratively between researchers in Canada and in the Latin American countries concerned. The resulting studies will be presented at a conference in June/July 1989, and ultimately published in a volume edited by Kanbur and Mazumdar. The conference and final volume will also contain similar case studies for Africa and Asia

from two separate projects (Mazumdar 1987, and Milne and Helleiner, 1988).

#### Previous and ongoing research

The macro literature on adjustment in Latin America is very extensive, and the impacts on macro indicators of labour market functioning (unemployment and the real wage) are frequently discussed (see for example Morales, 1987, for Bolivia, Gerchunoff and Bozalla, 1987, for Argentina, Carneiro, 1987, for Brazil, and Cortazar, 1986, for Brazil and Chile). There is also a large existing micro-economic literature on labour market performance in Latin America, discussing issues such as labour market segmentation, the "luxury unemployment" hypothesis, the allocative efficiency of migration, and minimum wages and social insurance schemes (see for example Berry, 1975a, Berry, 1975b, Berry, 1977, Fields and Marulanda, 1976, Gregory, 1974, Gregory, 1986, Riveros, 1986, Tenjo, 1986, and Udall and Sinclair, 1982).

The importance of linking these two literatures is obvious. The microeconomic performance of the labour market is a crucial underpinning of the success of macroeconomic adjustment, and at the same time an important intermediary in the transmission of adjustment effects onto income distribution. There are some ongoing (and a few completed) studies linking the two literatures for Latin America. Ongoing studies include work by PREALC (for example a conference in Santiago in March 1988), an ongoing project by Riveros at the World Bank, and work on the public sector by Sabot (1988) both for Latin countries and other LDC's. There are also completed studies which go some way towards a synthesis,

e.g. Mann and Sanchez (1985). There are also other similar efforts for other areas of the developing world, e.g. work at the World Bank on sub-Saharan Africa co-ordinated by Noel, work by Mazumdar (1987) on East and Southeast Asia and work by Milne and Helleiner (1988) on Africa. The studies proposed here would complement and draw on other similar activities. Given the ready availability of labour force survey data for Latin American countries, there is an excellent opportunity for pursuing the labour market and macro adjustment issue in some depth.

### Issues

A number of issues have been identified as meriting study on a cross-country basis. These include:

- 1) The role of labour in macroeconomic performance: the relation between wages and the inflation process (in particular wage indexation and inflation); and the role of unemployment.
- 2) The effect of labour market functioning on economic growth via its effects on capacity utilization, investment and choice of technology.
- 3) The role of the labour market in transmitting the effects of structural adjustment to income distribution, via changes in unemployment, real wages, and participation rates.
- 4) The effect of declining expenditures on public sector employment and real wages; the productivity effects of falling real wages in the public sector.
- 5) The role of migration in adjustment, where sectoral shifts imply geographic shifts of labour (both urban-rural and urban-urban).

- 6) The response of marginal workers: the effect of recession on employment, schooling, and participation rates of young adults (especially those with higher education), and women.
- 7) The behavior of segmented labour markets during adjustment; changes in the institutions in segmented labour markets, such as legislation on social insurance payments and legislation on firings, etc.; the impact of worsening conditions of employment in the modern sector on the growth and productivity of informal sector activities.

A set of issue papers being prepared in a separate project will be of considerable help in refining the country studies (Kanbur and Mazumdar, 1988).

#### Proposed study

It is proposed to undertake a set of country case studies in four Latin American countries, to examine the role of labour markets during structural adjustment. These country studies would be of two types. For two larger countries with extensive existing literature on macroeconomic adjustment and on the labour market, the studies would primarily synthesize the existing literatures, using where necessary published data. For two smaller countries with more limited literature particularly in the area of labour markets, the studies would be somewhat more intensive, and would synthesize existing literature, and also conduct tabulation and some analysis of existing labour force survey data. The emphasis would be on examining a common set of issues, such that comparisons could be made across countries.

For the larger Latin American countries (Brazil, Argentina, Chile, Mexico, Colombia) there is a large existing literature on macroeconomic adjustment, a reasonable literature on labour markets, as well as some studies which link the two (e.g. Mann and Sanchez, 1985). Studies have documented effects of adjustment on real wages, unemployment, participation rates and poverty. For two of these countries it is proposed to undertake a critical review of the existing literature (including analysis of published macroeconomic and labour force data) to systematize what is already known. One priority will also be to point out areas for potentially fruitful future research, particularly research which could be readily done with existing labour force survey data.

For the smaller countries in Latin America rather less is known about the labour market/macro interaction, and labour market research is thinner. However there are existing data which could be used to examine adjustment and the labour market, at least for certain countries. For two such countries it is proposed to survey the macro literature, and such labour literature as does exist, and then to synthesize and interpret these in combination with some new tabulations and analyses of labour force survey data for several pre- and post-recession years.

The countries envisaged for the study are Brazil, Argentina (or Chile), Bolivia, and Costa Rica. The criteria for the choice include the desire to obtain a mix of experiences, whilst taking into account the availability of literature and of labour force data. The inclusion of one of the two major debtors (Brazil and Mexico) seems inevitable, and of these, Brazil has better labour force data. This will form an interesting contrast to one of the Southern Cone countries where labour

market institutions tend to be more modern, reflecting the level of development, and where the onset of some sort of adjustment was several years earlier. Both Argentina and Chile have a number of active researchers on labour market issues: Argentina has a fairly continuous series of labour force surveys for 25 cities, at six monthly intervals, and Chile has similar data: one of these two countries would be included. The other country mentioned above was Colombia, less because of its interest as regards adjustment (since the recession has been less severe), than because of the potential externalities from another project on education, labour markets, and income distribution, to be undertaken by Berry (1987).

As regards the smaller countries, Bolivia is an interesting case since it is the poorest country in South America, and hence possibly most readily compared with low income countries outside Latin America. It has also had a very severe recession and labour force shakeout in mining, and there are good studies on macroeconomic adjustment (e.g. Morales and Sachs, 1987). There is also at least one labour force survey in the recession period (from 1987) and several scattered ones in the preceding period. Finally the inclusion of Costa Rica is due to the timing and seriousness of its macro-economic crisis and due to its unusually good labour force survey data over a number of years, with a panel component. If either Bolivia or Costa Rica should prove infeasible, Guatemala is another possibility, since there is some existing work on the labour market there (Terrell, 1984).

### Participants and audience

The main audience is assumed to be policy makers in developing countries. Results will be disseminated as part of a volume edited by Kanbur and Mazumdar. Findings will also be available for incorporation in EDI workshops and training courses.

The project is to be co-ordinated by Albert Berry and Susan Horton. It is intended to involve two authors per case study, so as to bridge the two areas of labour and macroeconomics, since few economists have expertise in both. There would also be collaboration across the case studies to deal with common issues. For the two larger countries it is anticipated that an economist will be identified in each of the two countries concerned, who will both conduct an extensive review of the literatures on macroeconomics and on labour markets, and supply a bibliography. The Canadian counterpart will work in close collaboration with the country economist in the process of synthesizing the two literatures, and will put the country study into the context of recent macroeconomic and labour market theory.

For the two smaller countries it is more difficult to identify local researchers with expertise on labour markets. In this case a local researcher will survey the existing literatures, and the Canadian counterpart will not only synthesize these, emphasizing the issues discussed above, but also conduct some analysis of labour force data.

There will be close collaboration across the case studies: this can perhaps most easily be achieved by meetings in Canada. Interested participants from the Latin American countries are presently being explored: Canadian counterparts will most likely include Albert Berry

and Jaime Tenjo (Costa Rica), Susan Horton (Bolivia), Mick Devereux (Brazil) and Miguel Faig (Argentina or Chile). Country institutions to be contacted include FGV (Brazil), Instituto di Tella (Argentina), CIEPLAN (Chile), UDAPE and Universidad Catolica (Bolivia) and the national university in Costa Rica.

#### Organization and timetable

Before the project commences, there will be a conference in Warwick (April 1988) which will identify issues, to be followed by an issues paper by Kanbur and Mazumdar which will follow the conference. Two project phases are anticipated. In the first phase, July-December 1988, the case studies will be commenced: the country economists will have major responsibility for producing a first draft of the literature survey, and will supply a bibliography to the Canadian counterpart. Analysis of labour force survey tapes will commence for the two smaller countries.

In the second phase (January-June 1989) the Canadian counterpart will have major responsibility for producing the synthesis paper. These papers will be presented at a conference in June/July 1989. The conference will also include country participants from parallel exercises for Asia (Mazumdar, 1987) and Africa (Milne and Helleiner, 1988). Funding for the conference, to be held at Warwick University, is being sought from another source. Subsequently the studies will be published in a volume to be edited by Kanbur and Mazumdar, to be completed by December 1989.



Budget

It is assumed that the authors would be paid in two installments, half on completion of a satisfactory first draft, and half on completion of a draft suitable for inclusion in a volume.

Summary Budget

	<u>By Country</u>		<u>By Phase</u>		<u>Total</u>
	<u>"Large"</u> (two)	<u>"Small"</u> (two)	<u>I: July-</u> <u>Dec 1988</u>	<u>II: Jan-</u> <u>June 1989</u>	
Paper fees:					
• local	\$ 5000	\$ 3000	\$ 8000	\$ 8000	\$16000
• Canadian	\$ 3000	\$ 5000	\$ 8000	\$ 8000	\$16000
Travel:	\$ 2000	\$ 2000	\$ 8000	-	\$ 8000
Analysis:	-	\$ 5000	\$ 5000	\$ 5000	\$10000
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TOTAL	\$10000	\$15000	\$29000	\$21000	\$50000

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Appendix 1: list of potential participants and affiliations

Albert Berry	Department of Economics, University of Toronto
Mick Devereux	Department of Economics, University of Toronto
Miguel Faig	Department of Economics, University of Toronto
Susan Horton	Department of Economics, University of Toronto
Jaime Tenjo	Department of Economics, St. Mary's University

Labour markets in Africa in an era of adjustment:

Study proposal.

Bill Milne and Gerry Helleiner  
Department of Economics  
University of Toronto  
150 St. George Street  
Toronto M5S 1A1

February 1988

## Introduction

Stabilization and structural adjustment are key issues facing countries in sub-Saharan Africa in the 1980's. Unless these countries adjust successfully, their long run growth prospects are poor. Labour market behavior is a vital part of the stabilisation and adjustment, both because of the role of labour mobility and real wage behavior, and also because the labour market is an important mechanism for transmission of the effects of macro performance and adjustment onto income distribution.

There is considerable interest in and work on the macro experience and adjustment in Africa. However the labour market has been rather less extensively studied, and the topic of labour markets in a period of retrenchment and adjustment has been barely touched upon. There are some studies of the migration process and of labour market segmentation in Africa, but the literature is less extensive than for other areas of the developing world.

It is proposed to perform case studies of three African countries, to relate the macro adjustment literature to the micro labour market literature. The individual case studies, as well as comparisons across them, will be useful for policy makers. The studies will be undertaken collaboratively between researchers in Canada and in the African countries concerned. The case studies will be discussed at a conference in June-July 1989, along with similar studies for Latin America and Asia and will ultimately be published in a volume edited by Kanbur and Mazumdar.

### Previous and ongoing research.

The macro experience and adjustment in sub-Saharan Africa are being extensively studied (Taylor, 1987, ILO, 1986, ongoing work by the OECD, etc.). There are also a number of studies of labour market issues in Africa, which have a bearing on the topic of adjustment. Studies of migration, the informal sector, the role of education etc., include Armitage and Sabot (1984), Barnum and Sabot (1977), Bienefeld and Sabot (1971), ILO (1985), Knight (1972), Knight and Sabot (forthcoming), Miracle and Fetter (1970), Sabot (1978) and Todaro (1969). There is ongoing work by Sabot (1988) on public sector pay and employment, which includes some African countries.

Few studies as yet have attempted to integrate the adjustment literature with the labour market literature (Ghai, 1987, is one exception). There is some ongoing work, e.g. a World Bank/UNDP project on the social impact of adjustment in sub-Saharan Africa which includes the labour market as one component. However much more remains to be done. For countries which have labour force survey data already collected, there is a good opportunity to integrate the labour market and adjustment literatures, and to formulate and test hypotheses about the role of the labour market in the adjustment process. To a large extent these government labour force data are underutilized. These national surveys could be particularly useful for the present study if they were available both pre- and post-recession.

### Issues

A number of issues have been identified as meriting study on a

cross-country basis. These include:

- 1) The role of labour in macroeconomic performance in economies still dominated by agricultural and mining activity: the relation between wages and the inflation process both in formal and informal sectors; and the role of unemployment.
- 2) The effect of labour market functioning on economic growth via its effects on capacity utilization, investment and choice of technology.
- 3) The role of the labour market in transmitting the effects of stabilisation and structural adjustment to income distribution, via changes in employment, real wages, and participation rates.
- 4) The effect of declining expenditures on public sector employment (both government and parastatal); the productivity and motivational effects of falling real wages in the public sector.
- 5) The role of migration in adjustment, where sectoral shifts imply geographic shifts of labour.
- 6) The impact on and response of marginal workers: the effect of recession on employment and participation rates.
- 7) The behavior of segmented labour markets during adjustment; changes in the institutions in segmented labour markets, such as legislation on social insurance payments and legislation on firings, etc.; changes in overall wage structure e.g. age/sex/skill/public-private/urban-rural differentials.

A set of issue papers being prepared in a separate project will be of considerable help in refining the country studies (Kanbur and Mazumdar, 1988).



Proposed study.

It is proposed to undertake case studies of three countries in sub-Saharan Africa, to examine the role of labour markets in structural adjustment. The emphasis will be on addressing a common set of issues, such that cross country comparisons will be possible. Each country study will summarize the existing literatures on the labour market and on macro stabilisation and adjustment, and will then use existing labour force surveys pre- and post-recession to examine the role of the labour market in the adjustment process.

The choice of countries is determined by the desire to see a range of experiences, whilst at the same time being constrained by data availability. Few African countries have labour force surveys dating after the onset of adjustment. The countries envisaged here are Kenya, Cote d'Ivoire, and either Ghana or Zambia. Although this is somewhat biased towards the higher income countries, this is dictated by data availability. One advantage however is that comparisons with countries outside Africa will be facilitated.

Kenya has been studied in great detail, both in terms of the macro adjustment literature (Swan, 1987, van der Hoeven, 1987, van der Hoeven and Vandermoortele, 1987), and the labour market (Armitage and Sabot, 1984, Barber and Milne, forthcoming, Bilsborrow et al, 1986, Collier and Lal (1986), Fallon, 1985, Ghai and Godfrey, 1979, Knight and Sabot, forthcoming). There are government labour force surveys for the pre-recession period of 1977-8 (Kenya, 1986), as well as a World Bank sponsored survey in 1980 (Knight and Sabot, 1983), a recent urban labour force survey which includes some income data which will shortly be

available from the Central Bureau of Statistics, and a planned labour force survey in 1988. Kenya is also an interesting case of a sub-Saharan African country with relatively good growth performance in the past, which was hard hit by recession, particularly via the effect on prices of primary agricultural exports.

Cote d'Ivoire is another example of a country with good growth performance, which was adversely affected by external events. It likewise has a literature on macroeconomic adjustment (Michel and Noel, 1984, Devarajan and de Melo, 1986), as well as a number of labour market studies. It also has possibly some of the best micro data available for any sub-Saharan African country (World Bank LSMS projects). Ongoing work on the labour market in Cote d'Ivoire by Fields may also be very useful for the present study.

For the third country to be studied it is desirable to include one of those which were relatively less successful prior to the structural adjustment phase. The present contenders are Ghana or Zambia, the final choice to be determined by data availability. Ghana is of interest as a country whose structural adjustment has been cited as a success on macro grounds, and which prior to that had a decade or more of negative economic growth and stagnation. There is a sizeable literature on macroeconomic adjustment (e.g. Loxley, 1988), as well as work on poverty and structural adjustment (UNICEF, 1985, Ubogu and Umo, 1986), if relatively little on the labour market and structural adjustment. Another consideration is that Ghana may be a case study in Sabot's (1988) work on the public sector, with possible gains from complementarity. Zambia is another interesting case, as a mineral exporter hard hit by

recession. There is some work there on stabilisation (e.g. Ndulo and Sakala, 1987, and Young, 1988). The final choice will depend on obtaining access to labour force survey data pre- and post-recession.

#### Audience and participants.

The main audience is assumed to be policy makers in developing countries. The results will be disseminated as part of a volume edited by Kanbur and Mazumdar. The findings will also be available for incorporation in EDI workshops and training courses.

The project will be co-ordinated by Bill Milne and Gerry Helleiner. There will be two authors per case study, one from Canada and one from the country concerned. There will also be collaboration across the case studies to address common issues. The country participant will be responsible for a thorough literature survey in the macro and labour market areas, for providing references, and for assisting with use of the survey data. The Canadian participant will be responsible for synthesizing the literatures and for overseeing the analysis of the labour force survey data.

The Canadian authors include Bill Milne (Kenya), Paul Beaudry (Cote d'Ivoire), and one other as yet to be determined (Zambia or Ghana). There will be collaboration across studies, to be achieved by meetings between authors of different country studies, which will most likely take place in Canada. There will also ultimately be a conference presenting the results of the African country studies, as well as parallel exercises for countries in Latin America (Berry and Horton, 1988) and Asia (Mazumdar, 1987). Separate funding is being sought for such a

conference.

Organization and timetable.

It is anticipated that there will be two phases: phase I from July-December 1988, and phase II from January-June 1989. Before the project commences, there will be a conference in Warwick (April 1988) which will identify issues, and from which an issues paper will be drafted by Kabur and Mazumdar. In phase I the case studies will be commenced. The country specialists will produce a first draft of the literature survey, and will supply a bibliography to the Canadian counterpart. Analysis of labour force survey data will commence.

In phase II the Canadian counterpart will have major responsibility for producing the synthesis paper. A draft will be available for a conference in June/July 1989. This conference will take place at Warwick University in England, and is to be funded from a separate source. The Canadian counterpart will have responsibility for revisions subsequent to the conference, such that the paper can be ultimately included in a volume to be edited by Kanbur and Mazumdar.

Budget.

It is assumed that the authors and co-ordinators would be paid in two installments, half on completion of a satisfactory first draft, and half on completion of a draft suitable for inclusion in a volume.

Summary budget

	<u>By country</u>	<u>By phase</u>		<u>Total</u>
	(three studies)	I: July- -Dec 1988	II: Jan- -June 1989	
Paper fees:				
- local	\$3000	\$4500	\$4500	\$9000
- Canadian	\$5000	\$7500	\$7500	\$15000
Co-ordinator fee:	\$500	\$750	\$750	\$1500
Travel and co-ordination	\$4000	\$12000	-	\$12000
Analysis	\$4000	\$6000	\$6000	\$12000
<hr/>				
TOTAL	\$16500	\$30750	\$18750	\$49500

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Young, R. Zambia: adjusting to poverty. Ottawa: North-South Institute, 1988.



Participants and affiliation.

Paul Beaudry	Department of Economics, University de Montreal
Gerry Helleiner	Department of Economics, University of Toronto
Bill Milne	Department of Economics, University of Toronto



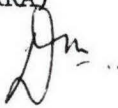
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# OFFICE MEMORANDUM

DATE: April 13, 1988

TO: Mr. Dennis de Tray (PPRA)

FROM: Dipak Mazumdar (EDIST) 

EXTENSION: 73305

SUBJECT: Project on Labor Markets in an Era of Adjustment

In terms of the Budget given on pages 26-27, the application to REPAC is for the projected expense for consultants writing the issue papers (Item No. 3) and for the first of two meetings at Warwick (Item No. 4). ODA is being approached for financing the second projected meeting.

DMazumdar:ms

<b>ROUTING SLIP</b>		DATE: 12-1-87
NAME		ROOM NO.
Mr. Dennis de Tray		S-13-135
APPROPRIATE DISPOSITION		NOTE AND RETURN
APPROVAL		NOTE AND SEND ON
CLEARANCE	X	PER OUR CONVERSATION
COMMENT		PER YOUR REQUEST
FOR ACTION		PREPARE REPLY
INFORMATION		RECOMMENDATION
INITIAL		SIGNATURE
NOTE AND FILE		URGENT
REMARKS:  Dipak Mazumdar's proposal.		
FROM: Timothy King	ROOM NO.: C-10-003	EXTENSION: 73301

*File  
as Draft  
Revised*

**Labor Markets**  
  
**in an**  
  
**Era of Adjustment**

**Ravi Kanbur**  
  
**and**  
  
**Dipak Mazumdar**

## **Labor Markets in an Era of Adjustment: A Summary of the Proposal**

### **1. Objective**

The objective of the project is to provide a detailed study of the role of labor markets in the problems of stabilization and structural adjustment in developing countries. The way the labor market performs is crucial, first, in the case with which the structure of production can be adjusted in appropriate directions, and secondly, in determining the impact of adjustment policies on poverty and the distribution of income. It should be noted that the labor market has a wide conotation for developing countries. It includes wage labor as well as the self employed found in large numbers in the urban informal and rural sectors of the economy.

### **2. Sources**

The work on the project will draw on the literature of labor markets in developing countries, and try to focus the traditional concerns in this literature on the problems of adjustment (See Section 2). Contributors to the issues papers will also utilize the results from the analysis of labor markets in developed countries, particularly in the fields of stagflation and of open economy models (See Section 4).

Apart from the published literature the project will review and utilize the large amount of ongoing work in the general area of stabilization and adjustment sponsored by a number of international agencies, e.g. ILO, WIDER, UNICEF, ODA, OECD etc. (See Section 3). While work on these studies reflect the specific objectives of the agency concerned, they all have some discussions of a conceptual or empirical nature which have a bearing on our project.

### **3. Proposed Output**

The project aims at producing two distinct sets of output:

- (i) A volume consisting of a number of issues papers and some case studies of developing countries whose experience illustrate the key issues discussed.
- (ii) An annotated bibliography of the large and growing literature on adjustment problems mentioned above (together with an introductory essay on the major results).

The final output of the project will be preceded by a number of intermediate products which can be used in EDI seminars at an early stage. For example, an initial attempt at a selective and synthetic essay on the results of existing and ongoing research will be made as part of the paper by Kambur and Mazumdar to be circulated to authors of case studies in the summer of 1988.

#### 4. Organization and Planning of the Project

The project will be organized in four phases under the guidance of Ravi Kanbur, (Warwick University (See C.V. enclosed), and Dipak Mazumdar (EDIST).

In the **first phase** (Jan 87 and Jun/Jul 88), the work on the annotated bibliography will be initiated. Also, on the basis of a short paper extending the project co-ordinators' ideas on labor markets and adjustment, a small workshop (of 6-8 people) will be held in April 1988 at Warwick to sharpen the focus further and agree on a firm chapter outline. The search for authors of issues papers and country studies will be completed by June 1988.

In phases II and III the authors associated with the project will finalize their papers, interacting with each other and the project coordinators at two meetings in January and June 1989. We envisage that an important part of the project will be the active participation of contributors from institutions in developing countries, particularly on the case studies. Hence provision has been made for meetings to bring the participants together.

The work on this annotated bibliography will continue during this period. The **final** phase (ending in Dec 1989) will consist of the editing of the papers into a

volume, and of the writing of the synthesis and overview chapter by Kanbur and Mazumdar. (See Section 6 for details).

## **5. Budget and Financing**

The Budget for the whole project (as discussed in Section 7) is of the order of \$165 K. TMPC is requested to fund the Phase I of the project, plus the cost of the Research Assistant at Warwick for one year to help with the work on the annotated bibliography and organization of the project. **The cost of the initial phase is \$25 k.**

TMPC will be approached again after the workshop in April 1988 when the plans for the subsequent phases have been firmed up. Opportunities for co-financing may be explored in the meantime and will be reported to TMPC.



## **Labor Markets in an Era of Adjustment**

### **1. Introduction**

1. During the 1980s a number of developing countries have adopted explicit programs of Structural Adjustment. The historical developments leading up to these programs include external shocks and inappropriate internal policies. There were external shocks such as the increase in oil prices in the late 1970s, followed by a global recession which had a severe impact on commodity prices. In the face of these shocks most governments did not adjust their fiscal and monetary policies sufficiently quickly, which led to growing internal and external imbalances. Given this situation, there was a need for short-term stabilization as well as medium to long term structural adjustment. The latter involves policies such as reducing public sector employment, eliminating price distortions, export promotion and industrial restructuring.

2. Many of these adjustment programs have been put into place with Bank assistance, and in fact for several countries these programs have been running for three or more years. The major rationale behind these programs is to assist countries in adjusting to the changing realities of international markets by shifting the structure of production in appropriate directions. Such a shift in structure towards more export - oriented production--whether in industry or in agriculture--requires a shift in factors of production between the different sectors. Clearly, therefore, labor markets and their response to economic forces play a central role in the adjustment process. A second concern with recent adjustment policies has been their impact on poverty and the distribution of income. Here again the way labor

markets respond to changes in macro economic policies in the short and medium term is crucial to the outcome.

3. The general concerns above translate into specific policy questions. They include: How effective is traditional demand management as a tool of employment policy in the new circumstances, and what support (if any) should be given to wage indexation proposals? What are the issues in reform of public sector employment and wage policy? What are the short-term policies needed to preserve the human capital of the labor force under current conditions? How is the position of women in labor markets to be protected and enhanced? What are the new policies that can be implemented to protect and encourage a modern sector labor force in areas of dynamic comparative advantage? These and other specific policy questions on labor markets during the era of adjustment form the basis of this project.

4. There is of course a large literature on the performance of labor markets in developing countries. But this is a diffuse literature covering a number of themes. Our idea is to focus the results of this literature on the current policy issues raised by the structural adjustment process. Similarly, a large research effort is now underway in the Bank and in other international agencies (UNICEF, FAO, OECD, ILO, WIDER, IMF) on the impact of adjustment on poverty. However, the studies being produced reflect the diverse interests of the agencies involved. There is a need to synthesize this work and to link it to the concerns of the labor markets literature. The object of this project is to produce such a synthesis, together with a set of studies which will prove useful in the preparation of seminar and training material for policy makers in LDCs. In section 2 below we provide a brief discussion of how the traditional themes of the labor markets literature tie in to the

emerging policy concerns in this area. On the basis of this intersection we then proceed to a detailed discussion of the project structure.

## **2. New Policy Issues and Traditional Themes**

5. What are the main new policy concerns? The need for structural adjustment is indicated, in the first instance, by an external disequilibrium as the result of absorption exceeding output (or, put another way, expenditure exceeding income). The disequilibrium can arise either because of external shocks or because of internal reasons to do with inappropriate policies. But if the resulting debt is unsustainable, then adjustment is a necessity. But adjustment can of course be accomplished either by reducing absorption or by increasing output. We may perhaps refer to the former as macroeconomic adjustment and to the latter as structural adjustment (see Kanbur, 1986). Concentrating on the latter, as being the major thrust of Bank-assisted programs, we can immediately identify several strands of thought.

6. One strand sees the problem as essentially one of increasing the output of the tradeable sector by removing price distortions which favor non-traded sectors and import substitution sectors rather than export sectors. This is the line of argument which leads to the policy recommendations (as in the case of Cote d'Ivoire) to increase the producer price of primary exports and to remove barriers against manufactured export industries. Yet another strand of thought sees a supplementary, and perhaps equally important, problem as being one of increasing output generally by freeing up rigidities in factor and output markets, and by improving the "X-efficiency" of parastatals and other public organisations. These strands of argument, and the policy recommendations that emanate from them, are

complementary to each other. But the former highlights an important distinction--that between the tradeables producing sector and the non-tradeables producing sector--which is not always present in the traditional labor markets literature. In the latter, labor markets are classified according to criteria such as their degree of "formalness" as measured by minimum wage legislation, unionization or other institutional features. But formal labor markets can be tied in to tradeable and non-tradeable output markets, as is the case for many manufacturing industries. Similarly a competitive labor market can be present in sectors producing primary commodities for export as well as in an urban informal sector which produces non-traded output.

7. A major challenge which the current policy concerns pose to the traditional labor markets literature is thus to combine the analysis of segmented labor markets with sectoral breakdown on the output side which matches more closely the traded/non-traded divide which lies at the heart of the structural adjustment problem. However, so far as the general question of improving the efficiency of the economy is concerned, the traditional concerns of labor market efficiency fit in very well with modern policy interest.

8. As the structural adjustment process has gathered pace, there has been a growing concern about the distributional consequences of adjustment, as reflected in recent policy papers at the IMF, the Bank's submission to the Development Committee, projects within the Bank to analyze the social dimensions of adjustment and perhaps amend programs accordingly, and projects in many international agencies (OECD, UNICEF, FAO, ILO) to investigate the problem in relation to their own terms of reference.

9       The details of these projects are taken up in Section 3 below, but there appear to be two distinct aspects to this distributional concern. The first is about the impact of the adjustment on the already poor. This poverty focussed concern has led to a number of recent contributions (Addison and Demery, 1985, Kanbur, 1987) and it ties in very well with one of the traditional themes in the labor markets literature which we identified below --the contribution of labor markets and their operation to poverty and to poverty alleviation. It stands to reason that labor markets must be an important intermediary between structural adjustment and its impact on poverty, and we argue below that the existing literature is well poised to help in the analysis of this intermediary role.

10.     The second aspect of distributional concern relates to the upper and middle end of the distribution. It appears in the worry that if the adjustment process makes powerful sections of the society worse off, they may mobilize to undo the process or at least prevent its full operation. Through cost of living adjustments or other means these groups may well succeed in restoring their standard of living, but at the expense of the adjustment process (Braverman and Kanbur, 1987). This political economy argument finds an echo in the traditional labor market literature's concern with wage indexation, the wage-price spiral, and inflation.

11.     The above is an account of the broad policy concerns in the era of adjustment. This is not the place for a detailed discussion of specific policy issues, which are in any case likely to be country-specific. But these specific questions, such as the role of public sector employment and wages, the position of women in the labor market, or manpower and training policies, do fall under the broad

headings we have sketched out and will be treated in the set of studies we propose (see Section 4). We turn now to the traditional labor markets literature to see how the concerns in that literature mesh with the emerging policy issues in adjustment.

12. One can identify several well established themes in the literature on labor markets in developing countries. The existence and nature of segmented labor markets, because of the prevalence of the family mode of production, has been reviewed by Sen (1975) and Mazumdar (1987), among others. This theme also goes back to the surplus labor models of Lewis (1954). The central idea is that because of a number of technological and "mode of production" features, the wage mechanism will not necessarily operate to clear the labor market, with resulting unemployment. This theme has been taken up again in the recent work on the efficiency wage and its labor market consequences (see Dasgupta and Ray, 1986).

13. Related to the above idea is of course the notion of imperfections caused by an institutional wage being fixed in the modern or formal sectors of developing countries. The formal sector can encompass both private firms and government employment. The inefficiencies caused by such rigidities have been investigated by many, starting from the work of Todaro (1969) and Harris-Todaro (1970). The consequences for trade policy have been analyzed by Bhagwati and Srinivasan (1974), and for factor mobility and growth by Corden and Findlay (1975), among others. However, less has been done on how these labor market features interact with macroeconomic adjustment (Edwards and Edwards, 1987, is a recent exception). Tied into the Harris-Todaro analysis, and emanating from it, is a large theoretical and empirical literature on rural-urban migration (see the review in Yap 1977, and Mazumdar 1986). The costs of migration, in particular the fixed costs,

have been discussed in Bannerjee and Kanbur (1981), and these costs are of obvious relevance in an adjustment context where labor has to move between sectors--which may also mean a move between regions.

14. Another area of traditional concern is the link between the operation of labor markets and the persistence of poverty. In the formal sector this has crystallized around the education-income connection and whether the human capital aspects of education dominate the screening aspects. The literature here is a large one, covering both theory (e.g. Arrow, 1973) and empirical analysis (Pscharopoulos 1985). In the informal and rural sectors the discussion has focussed on the determinants of real wages in these sectors, and the extent to which poor households rely on this income. The landlessness and poverty nexus in Asia clearly speaks to this question. The rapid growth of the urban informal sector in Asia, and in Africa and Latin America, and the close links between presence in this sector and poverty, have led to a literature investigating these links (e.g. ILO 1972, Mazumdar 1981, Bannerji 1983, Fields 1979)

15. Further traditional themes which tie in closely to concerns in structural adjustment programs relate to the impact of input subsidies on the demand for labor. Connected to this are output price policies and their effects on labor markets and income distribution (cf. Timmer 1983, Mellor 1983). Since current adjustment programs seem to have as an important component a reduction of agricultural subsidies, the traditional literature can once again speak to up to date policy issues.

16. In the realm of macroeconomics, two traditional themes in the literature on labor markets in less developed countries are (i) wage indexation and (ii) the

political economy of labor markets and institutions. Clearly these two are related to each other and both are moreover related to the question of how the labor side is treated in LDC macromodels. The Latin American literature is particularly prominent here (Behrman and Hanson 1979, Wachter 1979), but Taylor (1983) applies the general framework to other countries too. The question of wage indexation ties into one of the major policy concerns at the moment - how to change the relative price of tradeable and non-tradeable goods. In the traditional literature on devaluation this issue comes to the fore because of the assumption of nominal wage rigidity - devaluation is seen as the method of lowering the real wage and hence the relative price of non-tradeable goods. In many West African countries a similar issue arises even though devaluation itself is not institutionally possible, as in the case of the UMOA countries. Here we find attempts to "simulate" a devaluation through export subsidy and import tariff schemes.

17. But a policy which relies on lowering the real wage opens up two questions - whether the policy will be sustainable in the medium term, and whether it is advisable in the longer term. In the medium term the political economy of labor markets and institutions is important. The power of unions, be they private sector or government sector, is crucial. Many policies have had to be reversed as a result of opposition, sometimes violent opposition, from urban organised labor - there are many examples in Latin America, and there are recent cases in Sudan, Morocco and Tunisia. These political economy questions have to be addressed in any policy oriented discussion of labor markets and adjustment.

18. In the longer term, there is the substantive issue of whether increasing the production of traditional exports is indeed the right strategy. Short term



comparative advantage need not translate into the appropriate long term strategy. The development of modern industry, and the manpower associated with it, will not necessarily be well served by the short term imperative of getting the external disequilibrium right. There is a literature on dynamic comparative advantage which incorporates learning by doing and scale effects (see, for example Findlay 1973). While not immediately relevant to the short term disequilibrium, it is important nevertheless for us to keep in mind that short to medium term policies do have long term effects, a link which is emphasized in our project.

### **3. Ongoing Work**

19 There is thus a large existing literature on labor markets in developing countries which can speak to the current policy concerns on adjustment. However, as noted earlier there is also a considerable amount of ongoing research within international agencies which is relevant to our project. The ILO has conducted a series of studies on stabilization, adjustment and poverty (see ILO, 1986), and UNICEF has recently published the results of a project on the impact of adjustment on children (see Jolly et.a., 1987). This is a project which is continuing and will be producing results in the future. The ODA in U.K. has also conducted a series of case studies (introduced in Addison and Demery, 1985) which are now being finalised for circulation. A major project launched by WIDER in Helsinki on the experience of stabilization policies in LDC's is nearing conclusion as far as its first phase is concerned. (See Taylor 1987) The Development Centre of the OECD has made employment, poverty and adjustment a major theme of its research program for the next two years, and has launched a set of case studies, some of which

emphasize econometric modelling of the impact of adjustment policies. Similarly, the FAO has also conducted studies on this topic, with a focus on agriculture.

20. The IMF produced a Board paper in 1985 on the impact of Fund programs on income distribution, and has started on a set of case studies - the first six of which are due for completion soon. Within the World Bank itself, several research initiatives are underway. The Social Dimensions of Adjustment (SDA) project is a joint UNDP/World Bank project located in the AF1, with the object of analysing and monitoring the impact of Bank assisted programs on the poor in Africa. While Africa is the region of special concern (there is more ongoing work in the Human Resources Division of PPR) the situation of the poor in Latin America during the 1980s has also been causing concern (e.g. see World Bank 1986). In fact, the Debt and Macroeconomic Adjustment division of the Country Economic Department in PPR has made the general question of impact on poverty part of its regular work program.

21. As can be seen, a large and diverse research effort is under way in international agencies on adjustment and poverty. There is already some output, but much of this effort will bear fruit over the next two years. Our project will certainly benefit from this research. Indeed we see one of our tasks as being the synthesising of these results from the diverse groups and our proposed annotated bibliography (see below) will pay due attention to the most recent research. However, our project will be distinguished by a clear focus on labor markets. Our intention is to use the literature in a directed way so as to produce a synthesis for those who are having to formulate policy on the problems of labor markets in the adjustment process.

#### 4. The Proposed Set of Studies

22. The discussion in Sections 2 and 3 should make clear our argument that the intersection between (i) traditional themes in the literature on labor markets in developing countries and (ii) the emerging policy concerns in the era of structural adjustment, is a fruitful area of investigation. Moreover, the area does not require much in the way of new or original research. What is needed, rather, is to take stock of the labor markets literature and use it to address the new concerns. It is in providing a new focus to an old literature that we would see the major thrust of our set of studies.

23. We propose a set of issue-oriented papers, and a set of country case studies which would examine the role of labor markets in adjustment. The issue oriented papers would speak to the general conceptual framework and background under specific headings. They would review the existing literature and draw out the main implications for policy. The country case studies would approach the question from the other direction. Starting from the specific policy questions in their country, and the specific institutional features of the labor market, they would utilise the conceptual frameworks available in the literature - as reviewed in the issue oriented papers, for example - to draw country-specific policy conclusions.

24. At this stage we envisage six issue-oriented papers, six country case studies, and one synthesising paper which pulls together the major policy conclusions. It is too early to specify the exact division of areas, and the exact choice of countries. We will be seeking advice on this throughout the early stages

of the project and at a meeting called specifically for this purpose (see Section 6). However, we provide below a tentative list of the issue papers:

(i) The Labor Sector in Macro-models

The first issues paper (or perhaps two papers) might seek to summarize the major conclusions from the theoretical and empirical analysis of labor and macro economic policy in developed countries, many of which have also been subjected to problems of internal and external imbalance in the last decade or so. The two most relevant strands in this literature are (a) the analysis of stagflation and (b) the theory of the open economy which distinguishes between tradable and non-tradable sectors (and sometimes within the former between a booming and a lagging sector). The major limitation of this body of work from the point of view of LDC's is that it generally works with a single, integrated labor market. Nevertheless the analysis is of importance in defining the links between productivity growth, real wage and the external sector - economic relationships which are of significance in any economy. Policy questioning on which this literature focusses include: (a) the importance of demand management policies to take account of autonomous cost-push factors emanating from the labor market and/or the external sector, and (b) the differential impact of external imbalance on the tradable and non-tradable sectors, and the use of macro-economic instruments to deal with such disturbances.

(ii) Output Adjustment and the Flexibility of Labor Markets - Segmentation, Migration and Unemployment.

When we move to the analysis of less developed economy the non-homogeneous character of labor markets, - distinguishing at least between formal urban, informal urban and rural labor markets - has to be explicitly introduced. As

mentioned in the discussion in paras 6 and 7 the problem is complicated because the distinction between the tradable and non-tradable sectors on the output side do not coincide with the differentiation between the major segments of the LDC labor market. This means that in some LDC's more policy instruments will be required to tackle the problem of adjustment than in envisaged in the traditional model of the open economy. For example, a change in the real exchange rate to favor the tradable sector could lead to higher income of farmers in the rural sector as a whole (if subsistence and cash crop production are competitive), and thus increase wages, and prices in the non-tradeable sector by increasing the supply price of rural-urban migrants. This is a way in which the real exchange rate instrument may be blunted rather than by real wage rigidity as in traditional models.

Other barriers to the movement of labor, e.g. those connected with migration, may also hamper the process of adjustment which requires a shift of factors from non-tradeable to tradeable sectors. Current policies seem to be premised on the effectiveness of wage and price signals in bringing about this shift. What is the empirical evidence so far as labor markets are concerned? The paper will review the conceptual and empirical literature and perhaps develop a typology of labor markets which will help in classifying different types of policy problems in different types of countries. In general, the less such "structural" problems are recognized, the more severe the demand deflation which is needed to achieve internal and external balance, and the greater the danger of "over-kill".

(iii) Wage Indexation and the Political Economy of Adjustment.

It is now becoming clear that any analysis of adjustment policies must take into account the political economy of the adjustment process. It is this which will determine the sustainability of the adjustment program in the medium

term. Of course the political economy question is a very broad one, covering all aspects of interest group conflict in LDCs (see Braverman and Kanbur, 1987). In the context of this project, we will maintain a sharp focus on labor markets. The traditional literature on wage indexation speaks to this question, as does the literature on unionisation in LDCs (particularly important in Latin America). Similarly, public sector employment and wage policy would be an important part of the adjustment process in all countries, especially in Africa. This paper would review the literature under these headings, paying particular attention to regional variations.

(iv) Labor markets and Poverty.

While there is a large literature on poverty, this paper should focus on how labor markets interact with the poverty problem. This may be particularly important in the case of multiple income families, for whom shocks in one labor market may be compensated for by development in another. For example, a household which has employees in both tradeable and non-tradeable goods sectors is "diversified" with respect to changes in wages in these two sectors. How important is such diversification among poor households? This paper will review the empirical evidence of this and other issues which are important for linking adjustment and poverty through the labor market.

(v) Women and Labor markets

While some coverage of the position of women in labor markets could be achieved in a general discussion of labor markets and poverty, we feel that the topic is sufficiently important to deserve a paper on its own. The literature here is even more diffuse than in other areas under the heading of labor markets.

Moreover, some of the interesting work is in the non-economic literature (see Behrman 1987, and Hariss 1987, for examples of the economic and non-economic approaches to the problem). It would be useful to have this literature reviewed and focussed on the current policy concerns.

(vi) Medium-run adjustment and long-run growth: The role of labor markets.

This is perhaps the most challenging of the issue papers. It will try to follow through on the impact of adjustment policies - which are designed to restore external equilibrium in the medium run - on long run growth. This is a broad area but the focus will be sharpened by the concentration on labor markets. A major concern is with policies (sometimes call "stagnationist") which achieve sharp reduction in real wages to facilitate adjustment at the cost of depressing potential productivity growth in the longer run. The paper will cover long-run comparative advantage versus short-run adjustment, learning by doing and returns to scale. It will assess an argument which seems to have been lost in the current policy imperatives to support exportables - is there a case for continued protection of certain industries to allow them time to develop and be competitive in international markets? A review of the literature followed by a policy analysis which addresses such questions defines the content of this paper.

25. A prominent place would be given in the country case studies to countries which have had Bank-assisted structural adjustment programs. A regional balance between Asia, Africa and Latin America will be maintained since different issues arise in the different regions. Although the exact number and composition of case studies will depend on the identification of suitable authors, we would tentatively

envisage a total of six studies--two each from Asia, Latin America and Africa. In so far as it is possible, our object is to have the country case studies done by economists based in the country. A few more might be produced internally within EDIST by staff or visiting scholars as the work progresses.

26. These studies will be edited to form a volume entitled "Labor Markets in an Era of Adjustment." Apart from the issue papers and the case studies, we will have an overview introductory chapter synthesizing the main policy conclusions. In addition, we propose that the project produce an Annotated Bibliography of this large and growing literature, the most important items of which will be distributed to participating LDC institutions as discussed below.

## **5. Participants and Audience**

27. The intended audience for the results of the project, either in the form of the studies or in the form of training material based on the studies, are policy makers and economists in LDCs who are having to face the problems of labor markets in an era of adjustment. For these practitioners and local researchers the volume will bring together the existing literature and country experience so as to better inform their own policy analysis. The proposed annotated bibliography will be useful as a handy compendium of the literature which will also prove useful as a basis for teaching and training. Moreover, the final output of the project will be preceded by a number of intermediate products (see Section 6) which can be incorporated into EDI Seminars at an early stage. For example, an initial attempt at a selective and synthetic essay on the results of existing and ongoing research will be made as part of the paper by Kanbur and Mazumdar to be circulated to authors of case studies in



the summer of 1988. Also the authors of studies, and Kanbur and Mazumdar, can act as resource persons for EDI Seminars as the project progresses.

28. Our intention is to have significant participation by LDC based economists in the preparation of the studies, and to involve their institutions--some of which will overlap with the EDI's partner institutions--in the dissemination of the results via the conferences and by ensuring that major, and particularly recent, papers are copied and sent to these institutions so that they can build up their material in the area of labor markets and adjustments. It is clearly too early to make a definite list of authors and institutions, but we would envisage possible participation from CIREs (Cote d' Ivoire), CIEPLAN (Chile), FGV (Brazil), IDS (Kenya), University of Zimbabwe, University of Lagos (Nigeria), MIDS (India), among others. A major portion of the budget (see Section 7) which devoted to meetings which will bring participants from LDCs together with their DC counterparts. The benefits of such interaction for participants from LDC institutions will be an important output of the project.

## **6. Organization and Timetable**

29. The project will last for two years, from January 1, 1988 to December 31, 1989. The studies will be coordinated by Dipak Mazumdar (World Bank) and Ravi Kanbur (University of Warwick), who will edit the final volume. The project as a whole will be overseen by a steering committee comprising of representatives from EDIST, EDIEM, and elsewhere in PPR.

30. We envisage the project as having four distinct phases. On the basis of a short paper expanding our ideas on labor markets and adjustment, a small meeting (around 6 to 8 people) will be held in March/April, 1988, to sharpen the focus further and agree on a firm chapter outline. After the meeting Kanbur and Mazumdar will circulate a longer paper containing suggestions for the issues to be tackled in the country studies. The search for issue paper and country study authors will already have been initiated and will be finalized by June, 1988, the end of the first phase of the project.

31 During the second phase of the project authors will prepare material and write the first drafts of their papers, to be discussed at a conference in December 1988/January 1989. On the basis of the comments received at the conference authors will continue work on their papers during the third phase of the project, from January 1989 to June 1989. The completed papers will be discussed at the final conference in June/July 1989. The final phase will consist of the editing of these papers into a volume, and of the writing of the synthesis and overview chapter by Kanbur and Mazumdar. The volume will be delivered for publication by December 31, 1989.

## **7. Budget**

32. The table below presents a preliminary summary budget for the four phases of the project, by category of expenditure: Meetings, Fees for Papers, Research Assistance and Research Expenses, Administration Overhead at the University of Warwick, Fees for the principal consultant.

33. The meetings will be held at the Development Economics Research Centre, University of Warwick. The first meeting will be a small one consisting of around ten participants, with five coming from overseas. The costs are budgeted as follows:

5 flights at an average of \$1,200 per flight	= \$6,000
10 x 3 nights at an average of \$125 per night	= \$3,750
Rail fares within the U.K. and Incidentals	= <u>\$ 250</u>
	<b><u>10,000</u></b>

The second meeting, at the end of the second phase will be larger than the first meeting and will involve participants from Asia, Africa and Latin America. The budget is calculated as follows:

10 flights at an average of \$2,000 per flight	= \$20,000
15 x 3 nights at an average of \$125 per night	= \$ 5,625
Rail fares within the U.K. and incidentals	= <u>\$ 375</u>
	<b><u>\$26,000</u></b>

The third meeting, at the end of the third phase is also budgeted at \$26,000.

34. We propose that a fee of \$5,000 be paid per paper. For the five issue papers and six country study papers this makes a total of

$$11 \times \$5,000 = \$55,000$$

Each author will be paid \$1,500 upon delivery of the first draft, \$1,500 upon delivery of the second draft, and \$2,000 upon delivery of the final version suitable

for publication. This determines the pattern of payment in each phase of the project.

35 Throughout the project we will employ a part-time research assistant at the University of Warwick to help in the preparation and dissemination of the annotated bibliography, and to assist the coordinators in their task of editing the volume. This and other research expenses are budgeted at \$4,000 per phase of the project i.e. \$8,000 per year and \$16,000 over the two years of the project.

36 The project will be administered at the University of Warwick and a 10% administrative overhead is allowed for in the budget.

37 Three-man months are budgeted for the principal consultant (Professor Kanbur), at a total cost of \$15,000.

38. Total budget for the project is \$161.3 K. It is spread out over the four phases of the project covering the fiscal years ending 1988, 1989 and 1990.

**Summary Budget****(000 U.S. Dollars)**

Phase	I	II	III	IV	Total
Category	Jan.1988 - Jun/Jul 1988	Jul 1988 - Dec 1988/Jan 1989	Jan 1989- Jun/Jul 1989	Jun/Jul 1989 - Dec	1990
Meetings	10	26	26	0	62
Fees for Papers	0	16.5	16.5	22	55
Research Assistance	4	4	4	4	16
Warwick Overhead	1.4	4.65	4.65	2.6	13.3
Fees for Principal Consultant	5	2.5	2.5	5	15
<b>Total</b>	<b>20.4</b>	<b>53.65</b>	<b>53.65</b>	<b>33.6</b>	<b>161.3</b>

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<b>Document Date</b> 8/28/1954	<b>Document Type</b> CV / Resumé			
<b>Correspondents / Participants</b> Professor S. M.R. Kanbur				
<b>Subject / Title</b> Curriculum Vitae of Professor S>M.R. Kanbur (3)				
<b>Exception(s)</b> Personal Information				
<b>Additional Comments</b>		The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.		
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<b>Withdrawn by</b> Tarsica Morgan	<b>Date</b> December 30, 2019			

THE WORLD BANK RESEARCH PROGRAM  
REQUEST FOR RESEARCH SUPPORT BUDGET (RSB) FUNDING

Marcelo S.

DATE OF SUBMISSION:  
MAY 02 1988

PART I: PROJECT IDENTIFICATION

1. TITLE:  
Labor Markets in an Era of Adjustment

2. DEPARTMENT(S) RESPONSIBLE:  
EDI

3. STAFF PARTICIPATION:  
(a) Principal Supervisor: D. Mazumdar  
(b) Others Responsible: T. King  
(c) Administrative/Budget Staff: C. Peri

4. SOURCES OF FUNDING:  
RSB: \$ 98K Country: \$ \_\_\_\_\_  
Regional Dept.: \$ \_\_\_\_\_ Other: \$ 272K (EDI, CIDA, ILO, ODA)  
ERS/OPS/EIS: \$ \_\_\_\_\_ TOTAL: \$ 370K

5. ESTIMATED STAFF COST <sup>1/</sup> AND TIME REQUIRED IN WEEKS BY EACH DEPARTMENT:

Department	Staff Economist		Departmental Consultant		Staff Research Assistant		Total Staff	
	(a) Time	(b) Cost	(a) Time	(b) Cost	(a) Time	(b) Cost	(a) Time	(b) Cost
EDI	48	50.4						

6. ESTIMATED TOTAL COSTS ((4) + (5b)):

<sup>1/</sup> See Footnote on page 3, Part IV.2.

PART II: COORDINATION AND APPROVAL

REGIONAL COORDINATION AND CONSULTATION

A. Did Regional Consultation take place?  Yes  No

B. Comments by the Region(s):

C. Chief Economist(s) Name(s):

Signature(s):

T

DEPARTMENTAL APPROVAL

DIVISION CHIEF (Type Name): T. King	SIGNATURE: <i>T. King</i>	DATE: April 8, 1988
DEPARTMENT DIRECTOR (Type Name): Christopher Willoughby	SIGNATURE: <i>Christopher Willoughby</i>	DATE: April 24 1988

## PART III: IMPLEMENTATION

1. DATE WORK TO START: January 1, 1988	2. EXPECTED DATE OF COMPLETION: June 30, 1990
3. IMPLEMENTATION: <span style="float: right;">Names</span>	
(a) <input type="checkbox"/> Bank Staff	<u>Dipak Mazumdar</u>
(b) <input type="checkbox"/> Individual Consultants	<u>Ravi Kanbur</u>
(c) <input type="checkbox"/> Developing Country Institution	<u>EPU (Malaysia), TDRI (Thailand), CIRES (Cote d'Ivoire)</u>
(d) <input type="checkbox"/> Developed Country Institution	<u>CIEPLAN (Chile) and others</u> <u>University of Warwick, University of Toronto</u>
4. PROPOSED LIAISON WITH OPERATIONAL DEPARTMENTS: with relevant country desks	
5. CONFERENCES OR SEMINARS ANTICIPATED: April 1988 April 1989 November 1989	
6. REPORTS EXPECTED: June 1990	

## PART IV.1: FINANCIAL AND STAFF RESOURCES

## TOTAL DOLLARS COSTS (ESTIMATED DISBURSEMENTS BY FISCAL YEAR)

Category	FY (1)	FY (2)	FY (3)	FY (4)	Total FYs (5)
1A. <u>RSB Requirements:</u>					
(a) Consultants	35	10			45
(b) Travel		25	28		53
(c) Data Processing					
(d) Other Contractual Services					
(e) Contingencies					
Total RSB	35	35	28		98
1B. Other Funding	75	98	99		272
Total (IV.1A + IV.1B)	110	133	127		370

**IV.2: ESTIMATED DEPARTMENTALLY FUNDED STAFF TIME IN WEEKS AND COSTS 1/, BY FISCAL YEAR**

	FY (1)		FY (2)		FY (3)		FY (4)		Total FYs (5)	
	Time (d)	Cost (e)	Time (d)	Cost (e)	Time (d)	Cost (e)	Time (d)	Cost (e)	Time (d)	Cost (e)
(a) Staff Economist	12	46,800	18	75,600	18	81,000			48	203,400
(b) Departmental Consultant										
(c) Staff Research Assistant										
<b>Total IV.2</b>	12	46,800	18	75,600	18	81,000			48	203,400

1/ Staffweeks should be costed as follows (\$1000 per staffweek): Staff Economist and Departmental Consultant: FY86 - 3.6; FY87 - 3.9; FY88 - 4.2; FY89 - 4.5. Staff Research Assistant: FY86 - 1.6; FY87 - 1.7; FY88 - 1.8; FY89 - 1.9.

**IV.3: ESTIMATED COMBINED COSTS (FINANCIAL [IV - 1] + STAFF COSTS [IV - 2a]) BY FISCAL YEAR**

FY (1)	FY (2)	FY (3)	FY (4)	Total FYs (5)
156,800	208,600	208,000		573,400

**PART V: STAFF TIME IN WEEKS COMMITTED TO ONGOING RPOS**

RPO No.	FY (1)	FY (2)	FY (3)	FY (4)	Total FYs (5)
(a) Principal Supervisor					--
(b) Other					--

**Labor Markets**

**in an**

**Era of Adjustment**

**Ravi Kanbur**

**and**

**Dipak Mazumdar**

December 1987  
Revised April 1988

## Labor Markets in an Era of Adjustment: A Summary of the Proposal

### 1. Objective

The objective of the project is to provide a detailed study of the role of labor markets in the problems of stabilization and structural adjustment in developing countries. The way the labor market performs is crucial, first, for the ease with which the structure of production can be adjusted in appropriate directions, and secondly, in determining the impact of adjustment policies on poverty and the distribution of income. It should be noted that the labor market has a wide connotation for developing countries. It includes wage labor as well as the self employed found in large numbers in the urban informal and rural sectors of the economy.

### 2. Sources

The work on the project will draw on the literature of labor markets in developing countries, and try to focus the traditional concerns in this literature on the problems of adjustment (See Section 2). Contributors to the issues papers will also utilize the results from the analysis of labor markets in developed countries, particularly in the fields of stagflation and of open economy models (See Section 4).

Apart from the published literature the project will review and utilize the large amount of ongoing work in the general area of stabilization and adjustment sponsored by a number of international agencies, e.g. ILO, WIDER, UNICEF, ODA, OECD etc. (See Section 3). While work on these studies reflect the specific objectives of the agency concerned, they all have some discussions of a conceptual or empirical nature which have a bearing on our project.

### 3. Proposed Output

The project aims at producing two distinct sets of output:

- (i) A volume consisting of a number of issues papers and some case studies of developing countries whose experience illustrate the key issues discussed.
- (ii) An annotated bibliography of the large and growing literature on adjustment problems mentioned above (together with an introductory essay on the major results).

The final output of the project will be preceded by a number of intermediate products which can be used in EDI seminars at an early stage. For example, an initial attempt at a selective and synthetic essay on the results of existing and ongoing research will be made as part of the paper by Kanbur and Mazumdar to be circulated to authors of case studies in the summer of 1988.

### 4. Organization and Planning of the Project

The project will be organized in four phases under the guidance of Ravi Kanbur, (Warwick University (See C.V. enclosed), and Dipak Mazumdar (EDIST).

In the **first phase** (Jan 87 and Jun/Jul 88), the work on the annotated bibliography will be initiated. Also, on the basis of this proposal, a small workshop will be held in April 1988 at Warwick to sharpen the focus further and agree on a firm chapter outline. The search for authors of issues papers and country studies will be completed by June 1988.

In phases II and III the authors associated with the project will finalize their papers, interacting with each other and the project coordinators at two meetings in

April and November 1989. We envisage that an important part of the project will be the active participation of contributors from institutions in developing countries, particularly on the case studies. Hence provision has been made for meetings to bring the participants together.

The work on the annotated bibliography will continue during this period. The final phase (ending in June 1990) will consist of the editing of the papers into a volume, and of the writing of the synthesis and overview chapter by Kanbur and Mazumdar. (See Section 6 for details).

## **5. Budget and Financing**

The Budget for the whole project is \$370K. As detailed in section 7, co-financing of \$175K has already been found through EDI, CIDA and ILO. This leaves \$195K for which further financing is required.



## Labor Markets in an Era of Adjustment

### 1. Introduction

1. During the 1980s a number of developing countries have adopted explicit programs of Structural Adjustment. The historical developments leading up to these programs include external shocks and inappropriate internal policies. There were external shocks such as the increase in oil prices in the late 1970s, followed by a global recession which had a severe impact on commodity prices. In the face of these shocks most governments did not adjust their fiscal and monetary policies sufficiently quickly, which led to growing internal and external imbalances. Given this situation, there was a need for short-term stabilization as well as medium to long term structural adjustment. The latter involves policies such as reducing public sector employment, eliminating price distortions, export promotion and industrial restructuring.

2. Many of these adjustment programs have been put into place with Bank assistance, and in fact for several countries these programs have been running for three or more years. The major rationale behind these programs is to assist countries in adjusting to the changing realities of international markets by shifting the structure of production in appropriate directions. Such a shift in structure towards more export - oriented production--whether in industry or in agriculture--requires a shift in factors of production between the different sectors. Clearly, therefore, labor markets and their response to economic forces play a central role in

the adjustment process. A second concern with recent adjustment policies has been their impact on poverty and the distribution of income. Here again the way labor markets respond to changes in macro economic policies in the short and medium term is crucial to the outcome.

3. The general concerns above translate into specific policy questions. They include: How effective is traditional demand management as a tool of employment policy in the new circumstances, and what support (if any) should be given to wage indexation proposals? What are the issues in reform of public sector employment and wage policy? What are the short-term policies needed to preserve the human capital of the labor force under current conditions? How is the position of women in labor markets to be protected and enhanced? What are the new policies that can be implemented to protect and encourage a modern sector labor force in areas of dynamic comparative advantage? These and other specific policy questions on labor markets during the era of adjustment form the basis of this project.

4. There is of course a large literature on the performance of labor markets in developing countries. But this is a diffuse literature covering a number of themes. Our idea is to focus the results of this literature on the current policy issues raised by the structural adjustment process. Similarly, a large research effort is now underway in the Bank and in other international agencies (UNICEF, FAO, OECD, ILO, WIDER, IMF) on the impact of adjustment on poverty. However, the studies being produced reflect the diverse interests of the agencies involved. There



and import substitution sectors rather than export sectors. This is the line of argument which leads to the policy recommendations (as in the case of Cote d'Ivoire) to increase the producer price of primary exports and to remove barriers against manufactured export industries. Yet another strand of thought sees a supplementary, and perhaps equally important, problem as being one of increasing output generally by freeing up rigidities in factor and output markets, and by improving the "X-efficiency" of parastatals and other public organisations. These strands of argument, and the policy recommendations that emanate from them, are complementary to each other. But the former highlights an important distinction--that between the tradeables producing sector and the non-tradeables producing sector--which is not always present in the traditional labor markets literature. In the latter, labor markets are classified according to criteria such as their degree of "formalness" as measured by minimum wage legislation, unionization or other institutional features. But formal labor markets can be tied in to tradeable and non-tradeable output markets, as is the case for many manufacturing industries. Similarly a competitive labor market can be present in sectors producing primary commodities for export as well as in an urban informal sector which produces non-traded output.

7. A major challenge which the current policy concerns pose to the traditional labor markets literature is thus to combine the analysis of segmented labor markets with sectoral breakdown on the output side which matches more closely the traded/non-traded divide which lies at the heart of the structural adjustment

problem. However, so far as the general question of improving the efficiency of the economy is concerned, the traditional concerns of labor market efficiency fit in very well with modern policy interest.

8. As the structural adjustment process has gathered pace, there has been a growing concern about the distributional consequences of adjustment, as reflected in recent policy papers at the IMF, the Bank's submission to the Development Committee, projects within the Bank to analyze the social dimensions of adjustment and perhaps amend programs accordingly, and projects in many international agencies (OECD, UNICEF, FAO, ILO) to investigate the problem in relation to their own terms of reference.

9 The details of these projects are taken up in Section 3 below, but there appear to be two distinct aspects to this distributional concern. The first is about the impact of the adjustment on the already poor. This poverty focussed concern has led to a number of recent contributions (Addison and Demery, 1985, Kanbur, 1987) and it ties in very well with one of the traditional themes in the labor markets literature which we identified below --the contribution of labor markets and their operation to poverty and to poverty alleviation. It stands to reason that labor markets must be an important intermediary between structural adjustment and its impact on poverty, and we argue below that the existing literature is well poised to help in the analysis of this intermediary role.

10. The second aspect of distributional concern relates to the upper and middle end of the distribution. It appears in the worry that if the adjustment process makes powerful sections of the society worse off, they may mobilize to undo the process or at least prevent its full operation. Through cost of living adjustments or other means these groups may well succeed in restoring their standard of living, but at the expense of the adjustment process (Braverman and Kanbur, 1987). This political economy argument finds an echo in the traditional labor market literature's concern with wage indexation, the wage-price spiral, and inflation.

11. The above is an account of the broad policy concerns in the era of adjustment. This is not the place for a detailed discussion of specific policy issues, which are in any case likely to be country-specific. But these specific questions, such as the role of public sector employment and wages, the position of women in the labor market, or manpower and training policies, do fall under the broad headings we have sketched out and will be treated in the set of studies we propose (see Section 4). We turn now to the traditional labor markets literature to see how the concerns in that literature mesh with the emerging policy issues in adjustment.

12. One can identify several well established themes in the literature on labor markets in developing countries. The existence and nature of segmented labor markets, because of the prevalence of the family mode of production, has been reviewed by Sen (1975) and Mazumdar (1987), among others. This theme also goes back to the surplus labor models of Lewis (1954). The central idea is that

because of a number of technological and "mode of production" features, the wage mechanism will not necessarily operate to clear the labor market, with resulting unemployment. This theme has been taken up again in the recent work on the efficiency wage and its labor market consequences (see Dasgupta and Ray, 1986).

13. Related to the above idea is of course the notion of imperfections caused by an institutional wage being fixed in the modern or formal sectors of developing countries. The formal sector can encompass both private firms and government employment. The inefficiencies caused by such rigidities have been investigated by many, starting from the work of Todaro (1969) and Harris-Todaro (1970). The consequences for trade policy have been analyzed by Bhagwati and Srinivasan (1974), and for factor mobility and growth by Corden and Findlay (1975), among others. However, less has been done on how these labor market features interact with macroeconomic adjustment (Edwards and Edwards, 1987, is a recent exception). Tied into the Harris-Todaro analysis, and emanating from it, is a large theoretical and empirical literature on rural-urban migration (see the review in Yap 1977, and Mazumdar 1986). The costs of migration, in particular the fixed costs, have been discussed in Bannerjee and Kanbur (1981), and these costs are of obvious relevance in an adjustment context where labor has to move between sectors--which may also mean a move between regions.

14. Another area of traditional concern is the link between the operation of labor markets and the persistence of poverty. In the formal sector this has crystallized

around the education-income connection and whether the human capital aspects of education dominate the screening aspects. The literature here is a large one, covering both theory (e.g. Arrow, 1973) and empirical analysis (Pscharopoulos 1985). In the informal and rural sectors the discussion has focussed on the determinants of real wages in these sectors, and the extent to which poor households rely on this income. The landlessness and poverty nexus in Asia clearly speaks to this question. The rapid growth of the urban informal sector in Asia, and in Africa and Latin America, and the close links between presence in this sector and poverty, have led to a literature investigating these links (e.g. ILO 1972, Mazumdar 1981, Bannerji 1983, Fields 1979)

15. Further traditional themes which tie in closely to concerns in structural adjustment programs relate to the impact of input subsidies on the demand for labor. Connected to this are output price policies and their effects on labor markets and income distribution (cf. Timmer 1983, Mellor 1983). Since current adjustment programs seem to have as an important component a reduction of agricultural subsidies, the traditional literature can once again speak to up to date policy issues.

16. In the realm of macroeconomics, two traditional themes in the literature on labor markets in less developed countries are (i) wage indexation and (ii) the political economy of labor markets and institutions. Clearly these two are related to each other and both are moreover related to the question of how the labor side is treated in LDC macromodels. The Latin American literature is particularly



prominent here (Behrman and Hanson 1979, Wachter 1979), but Taylor (1983) applies the general framework to other countries too. The question of wage indexation ties into one of the major policy concerns at the moment - how to change the relative price of tradeable and non-tradeable goods. In the traditional literature on devaluation this issue comes to the fore because of the assumption of nominal wage rigidity - devaluation is seen as the method of lowering the real wage and hence the relative price of non-tradeable goods. In many West African countries a similar issue arises even though devaluation itself is not institutionally possible, as in the case of the UMOA countries. Here we find attempts to "simulate" a devaluation through export subsidy and import tariff schemes.

in terms of  
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neces. in terms of  
CPI -

17. But a policy which relies on lowering the real wage opens up two questions - whether the policy will be sustainable in the medium term, and whether it is advisable in the longer term. In the medium term the political economy of labor markets and institutions is important. The power of unions, be they private sector or government sector, is crucial. Many policies have had to be reversed as a result of opposition, sometimes violent opposition, from urban organised labor - there are many examples in Latin America, and there are recent cases in Sudan, Morocco and Tunisia. These political economy questions have to be addressed in any policy oriented discussion of labor markets and adjustment.

18. In the longer term, there is the substantive issue of whether increasing the production of traditional exports is indeed the right strategy. Short term

comparative advantage need not translate into the appropriate long term strategy. The development of modern industry, and the manpower associated with it, will not necessarily be well served by the short term imperative of getting the external disequilibrium right. There is a literature on dynamic comparative advantage which incorporates learning by doing and scale effects (see, for example Findlay 1973). While not immediately relevant to the short term disequilibrium, it is important nevertheless for us to keep in mind that short to medium term policies do have long term effects, a link which is emphasized in our project.

### 3. Ongoing Work

19 There is thus a large existing literature on labor markets in developing countries which can speak to the current policy concerns on adjustment. However, as noted earlier there is also a considerable amount of ongoing research within international agencies which is relevant to our project. The ILO has conducted a series of studies on stabilization, adjustment and poverty (see ILO, 1986), and UNICEF has recently published the results of a project on the impact of adjustment on children (see Jolly et.a., 1987). This is a project which is continuing and will be producing results in the future. The ODA in U.K. has also conducted a series of case studies (introduced in Addison and Demery, 1985) which are now being finalised for circulation. A major project launched by WIDER in Helsinki on the experience of stabilization policies in LDC's is nearing conclusion as far as its first phase is concerned. (See Taylor 1987) The Development Centre of the OECD has

made employment, poverty and adjustment a major theme of its research program for the next two years, and has launched a set of case studies, some of which emphasize econometric modelling of the impact of adjustment policies. Similarly, the FAO has also conducted studies on this topic, with a focus on agriculture.

20. The IMF produced a Board paper in 1985 on the impact of Fund programs on income distribution, and has started on a set of case studies - the first six of which are due for completion soon. Within the World Bank itself, several research initiatives are underway. The Social Dimensions of Adjustment (SDA) project is a joint UNDP/World Bank project located in the AF1, with the object of analysing and monitoring the impact of Bank assisted programs on the poor in Africa. While Africa is the region of special concern (there is more ongoing work in the Human Resources Division of PPR) the situation of the poor in Latin America during the 1980s has also been causing concern (e.g. see World Bank 1986). In fact, the Debt and Macroeconomic Adjustment division of the Country Economic Department in PPR has made the general question of impact on poverty part of its regular work program.

21. As can be seen, a large and diverse research effort is under way in international agencies on adjustment and poverty. There is already some output, but much of this effort will bear fruit over the next two years. Our project will certainly benefit from this research. Indeed we see one of our tasks as being the synthesising of these results from the diverse groups and our proposed annotated bibliography (see below) will pay due attention to the most recent research.

However, our project will be distinguished by a clear focus on labor markets. Our intention is to use the literature in a directed way so as to produce a synthesis for those who are having to formulate policy on the problems of labor markets in the adjustment process.

#### 4. The Proposed Set of Studies

22. The discussion in Sections 2 and 3 should make clear our argument that the intersection between (i) traditional themes in the literature on labor markets in developing countries and (ii) the emerging policy concerns in the era of structural adjustment, is a fruitful area of investigation.

23. We propose a set of issue-oriented papers, and a set of country case studies which would examine the role of labor markets in adjustment. The issue oriented papers would speak to the general conceptual framework and background under specific headings. They would review the existing literature and draw out the main implications for policy. The country case studies would approach the question from the other direction. Starting from the specific policy questions in their country, and the specific institutional features of the labor market, they would utilise the conceptual frameworks available in the literature - as reviewed in the issue oriented papers, for example - to draw country-specific policy conclusions.

24. At this stage we envisage around seven issue-oriented papers, ten country case studies, and one synthesising paper which pulls together the major policy conclusions. It is too early to specify the exact division of areas, and the exact choice of countries. We will be seeking advice on this throughout the early stages of the project and at a meeting called specifically for this purpose (see Section 6). We provide below a tentative list of areas to be covered by the issue papers:

(i) The Labor Sector in Macro-models

The first issues paper (or perhaps two papers) might seek to summarize the major conclusions from the theoretical and empirical analysis of labor and macro economic policy in developed countries, many of which have also been subjected to problems of internal and external imbalance in the last decade or so. The two most relevant strands in this literature are (a) the analysis of stagflation and (b) the theory of the open economy which distinguishes between tradable and non-tradable sectors (and sometimes within the former between a booming and a lagging sector). The major limitation of this body of work from the point of view of LDC's is that it generally works with a single, integrated labor market. Nevertheless the analysis is of importance in defining the links between productivity growth, real wage and the external sector - economic relationships which are of significance in any economy. Policy questioning on which this literature focusses include: (a) the importance of demand management policies to take account of autonomous cost-push factors emanating from the labor market and/or the external sector, and (b) the

differential impact of external imbalance on the tradable and non-tradable sectors, and the use of macro-economic instruments to deal with such disturbances.

(ii) Output Adjustment and the Flexibility of Labor Markets -  
Segmentation, Migration and Unemployment.

When we move to the analysis of less developed economy the non-homogeneous character of labor markets, - distinguishing at least between formal urban, informal urban and rural labor markets - has to be explicitly introduced. As mentioned earlier the problem is complicated because the distinction between the tradable and non-tradable sectors on the output side do not coincide with the differentiation between the major segments of the LDC labor market. This means that in some LDC's more policy instruments will be required to tackle the problem of adjustment than in envisaged in the traditional model of the open economy. For example, a change in the real exchange rate to favor the tradable sector could lead to higher income of farmers in the rural sector as a whole (if subsistence and cash crop production are competitive), and thus increase wages, and prices in the non-tradeable sector by increasing the supply price of rural-urban migrants. This is a way in which the real exchange rate instrument may be blunted rather than by real wage rigidity as in traditional models.

Other barriers to the movement of labor, e.g. those connected with migration, may also hamper the process of adjustment which requires a shift of factors from non-tradeable to tradeable sectors. Current policies seem to be premised on the effectiveness of wage and price signals in bringing about this shift.

What is the empirical evidence so far as labor markets are concerned? The paper will review the conceptual and empirical literature and perhaps develop a typology of labor markets which will help in classifying different types of policy problems in different types of countries. In general, the less such "structural" problems are recognized, the more severe the demand deflation which is needed to achieve internal and external balance, and the greater the danger of "over-kill".

(iii) Wage Indexation and the Political Economy of Adjustment.

It is now becoming clear that any analysis of adjustment policies must take into account the political economy of the adjustment process. It is this which will determine the sustainability of the adjustment program in the medium term. Of course the political economy question is a very broad one, covering all aspects of interest group conflict in LDCs (see Braverman and Kanbur, 1987). In the context of this project, we will maintain a sharp focus on labor markets. The traditional literature on wage indexation speaks to this question, as does the literature on unionisation in LDCs (particularly important in Latin America). Similarly, public sector employment and wage policy would be an important part of the adjustment process in all countries, especially in Africa. This paper would review the literature under these headings, paying particular attention to regional variations.

*the role of  
indexation in  
stabilization  
program?*

(iv) Labor markets and Poverty.

While there is a large literature on poverty, this paper should focus on how labor markets interact with the poverty problem. This may be particularly important in the case of multiple income families, for whom shocks in one labor market may be compensated for by development in another. For example, a household which has employees in both tradeable and non-tradeable goods sectors is "diversified" with respect to changes in wages in these two sectors. How important is such diversification among poor households? This paper will review the empirical evidence of this and other issues which are important for linking adjustment and poverty through the labor market.

(v) Women and Labor markets

While some coverage of the position of women in labor markets could be achieved in a general discussion of labor markets and poverty, we feel that the topic is sufficiently important to deserve a paper on its own. The literature here is even more diffuse than in other areas under the heading of labor markets. Moreover, some of the interesting work is in the non-economic literature (see Behrman 1987, and Hariss 1987, for examples of the economic and non-economic approaches to the problem). It would be useful to have this literature reviewed and focussed on the current policy concerns.

(vi) Medium-run adjustment and long-run growth: The role of labor markets.



This is perhaps the most challenging of the issue papers. It will try to follow through on the impact of adjustment policies - which are designed to restore external equilibrium in the medium run - on long run growth. This is a broad area but the focus will be sharpened by the concentration on labor markets. A major concern is with policies (sometimes call "stagnationist") which achieve sharp reduction in real wages to facilitate adjustment at the cost of depressing potential productivity growth in the longer run. The paper will cover long-run comparative advantage versus short-run adjustment, learning by doing and returns to scale. It will assess an argument which seems to have been lost in the current policy imperatives to support exportables - is there a case for continued protection of certain industries to allow them time to develop and be competitive in international markets? A review of the literature followed by a policy analysis which addresses such questions defines the content of this paper.

by depressing investment?

no! infant industries again?!

25. Turning now to the case studies, a regional balance between Asia, Africa and Latin America will be maintained since different issues arise in the different regions. Although the exact number and composition of case studies will depend on the identification of suitable authors, we would tentatively envisage a total of ten studies. At this stage, the countries being discussed are Brazil, Argentina, Bolivia and Costa Rica in Latin America (see attached study proposal by Berry and Horton); Kenya, Côte d'Ivoire, and Ghana in Africa (see attached study proposal by Milne and Helleiner); Malaysia, Thailand and Indonesia in Asia (where cofinancing is available from the ILO--see section 7).

instead of 8/10

26. These studies will be edited to form a volume entitled "Labor Markets in an Era of Adjustment." Apart from the issue papers and the case studies, we will have an overview introductory chapter synthesizing the main policy conclusions. In addition, we propose that the project produce an Annotated Bibliography of this large and growing literature, the most important items of which will be distributed to participating LDC institutions as discussed below.

### 5. Participants and Audience

27. The intended audience for the results of the project, either in the form of the studies or in the form of training material based on the studies, are policy makers and economists in LDCs who are having to face the problems of labor markets in an era of adjustment. For these practitioners and local researchers the volume will bring together the existing literature and country experience so as to better inform their own policy analysis. The proposed annotated bibliography will be useful as a handy compendium of the literature which will also prove useful as a basis for teaching and training. Moreover, the final output of the project will be preceded by a number of intermediate products (see Section 6) which can be incorporated into EDI Seminars at an early stage. For example, an initial attempt at a selective and synthetic essay on the results of existing and ongoing research will be made as part of the paper by Kanbur and Mazumdar to be circulated to authors of case studies in

the summer of 1988. Also the authors of studies, and Kanbur and Mazumdar, can act as resource persons for EDI Seminars as the project progresses.

28. Our intention is to have significant participation by LDC based economists in the preparation of the studies, and to involve their institutions--some of which will overlap with the EDI's partner institutions--in the dissemination of the results via the conferences and by ensuring that major, and particularly recent, papers are copied and sent to these institutions so that they can build up their material in the area of labor markets and adjustments. It is clearly too early to make a definite list of authors and institutions, but we would envisage possible participation from CIRES (Cote d' Ivoire), CIEPLAN (Chile), FGV (Brazil), IDS (Kenya), University of Zimbabwe, University of Lagos (Nigeria), MIDS (India), among others. A substantial portion of the budget (see Section 7) which devoted to meetings which will bring participants from LDCs together with their DC counterparts. The benefits of such interaction for participants from LDC institutions will be an important output of the project.

## 6. Organization and Timetable

29. The project is scheduled to last for two and a half years, from January 1, 1988 to June 30, 1990. The studies will be coordinated by Dipak Mazumdar (World Bank) and Ravi Kanbur (University of Warwick), who will edit the final

volume. The project as a whole will be overseen by a steering committee comprising of representatives from EDIST, EDIEM, and elsewhere in PPR.

30. We envisage the project as having four distinct phases. In the first phase, a workshop will be held in April, 1988, to sharpen the focus further and agree on a firm chapter outline. After the meeting Kanbur and Mazumdar will circulate a longer paper containing suggestions for the issues to be tackled in the country studies. The search for issue paper and country study authors will already have been initiated and will be finalized by June, 1988, the end of the first phase of the project.

31 During the second phase of the project authors will prepare material and write the first drafts of their papers, to be discussed at a conference in April 1989. These papers will also be disseminated widely as discussion papers. On the basis of the comments received, authors will continue work on their papers during the third phase of the project, from April 1989 to October/November 1989. The completed papers will be discussed at the final conference in November 1989. The final phase will consist of the editing of these papers into a volume, and of the writing of the synthesis and overview chapter by Kanbur and Mazumdar. The volume will be delivered for publication by June 30, 1990.

## 7. Budget

32. The table below presents a preliminary budget by category of expenditure. Category 1, expenditure during the first phase of the project and for the April 1988 workshop, is already covered by a grant from EDI (TMPC). The second category of expenditure is the largest, and consists of payment for country studies. Detailed proposals for African and Latin American studies are attached. These will be co-financed by EDI and CIDA. The Asian case studies will be financed by the ILO as part of a larger project on labor markets in Southeast Asia. Category 3 consists of payments for issue papers--seven papers at \$5K each.

After the country studies, the second largest categories of expenditure are for the two conferences at the University of Warwick, which form an integral part of the project. Taking into account air travel for L.D.C. and D.C. participants at the economy class rate, and the costs of local accommodations, these meetings are costed at \$55K each.

There follow a number of categories of smaller expenditure items, including research assistance for the production of the annotated bibliography and secretarial assistance throughout the 2 1/2 years of the project. Category 8 is essentially reproduction and dissemination costs for papers at the meetings which are expected to be large, given the size of the conferences, the expected length of papers, and the fact that around 20 papers are being produced. In addition, we would like to

disseminate the first drafts of these papers, which will be produced for the first conference, as widely as possible--especially to L.D.C. institutions--in discussion paper form. Category 9 accounts for the costs of such dissemination for around 20 papers. Category 10 is the fees for the principal consultant (Professor Kanbur).

The total budget is \$370K. Of this \$175 has been raised from EDI, CIDA and ILO which leaves \$195K to be found from other sources.

## Budget (000 Dollars)

1. First Phase/Warwick Workshop, April 1988	<u>25</u>
2. Country Studies	
Africa (see attached proposal by Milne/Helleiner)	50
Latin America (see attached proposal by Berry/Horton)	50
Asia (see above on co-financing)	50
	<u>150</u>
3. Issue Papers	
Seven papers at \$5K per paper	<u>35</u>
4. First Meeting, University of Warwick, April 1989	
Accommodation (35 participants for 3 nights) + local travel	15
Air travel, L.D.C. participants (10 x \$2K)	20
Air travel, D.C. participants (10 x \$2K)	20
Total	<u>55</u>
5. Second Meeting, University of Warwick, November 1989	<u>55</u>
6. Research assistance for annotated bibliography and volume editing	<u>10</u>
7. Secretarial Assistance	<u>10</u>
8. Photocopying (50 copies of 20 papers of 50 pages each) + postage + telephone for the two meetings	<u>10</u>
9. Wide dissemination of first drafts as Warwick discussion papers	<u>10</u>
10. Fees (Kanbur)	<u>10</u>
<u>Total Budget</u>	<u>370</u>

Cofinancing

EDI: First Phase/Workshop	25
EDI: (50% of African and Latin American Case Studies)	50
CIDA: (50% of African and Latin American Case Studies)	50
ILO: (Asian Case Studies)	<u>50</u>
Total	<u>175</u>
<u>Funds to be Raised</u>	<u>195</u>
Application to RSB	98
Application to ODA, London	97



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Labour markets in Latin America in an era of adjustment:

Study proposal

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February 1988

## Introduction

The debt crisis and ensuing recession in developing countries have provoked an extensive examination of the possibility of structural adjustment. One crucial aspect of the ability to adjust depends on the labour market: mobility of labour between the production of tradeables and nontradeables, between different sectors of the economy, and between different geographic areas, is vital to the success of adjustment. Likewise the downward flexibility of the real wage affects the path towards adjustment. The labour market also plays a major role in intermediating between structural change and income distribution. Macro theories and models invariably consider the main aggregate labour market indicators such as unemployment and real wages.

At the same time microeconomic studies of the labour market have frequently examined institutions and rigidities in labour markets which would affect the success of adjustment: these include segmentation, persistence of open unemployment, minimum wage legislation, unions, and the allocative efficiency of migration.

It is proposed that a small number of country studies be undertaken for Latin American countries, synthesizing the macro and labour market literatures, to examine the role of labour markets during an era of adjustment. The aim is to use the studies, and cross country comparisons between the studies, to derive lessons of value for policy makers. These studies will be undertaken collaboratively between researchers in Canada and in the Latin American countries concerned. The resulting studies will be presented at a conference in June/July 1989, and ultimately published in a volume edited by Kanbur and Mazumdar. The conference and final volume will also contain similar case studies for Africa and Asia

from two separate projects (Mazumdar 1987, and Milne and Helleiner, 1988).

### Previous and ongoing research

The macro literature on adjustment in Latin America is very extensive, and the impacts on macro indicators of labour market functioning (unemployment and the real wage) are frequently discussed (see for example Morales, 1987, for Bolivia, Gerchunoff and Bozzalla, 1987, for Argentina, Carneiro, 1987, for Brazil, and Cortazar, 1986, for Brazil and Chile). There is also a large existing micro-economic literature on labour market performance in Latin America, discussing issues such as labour market segmentation, the "luxury unemployment" hypothesis, the allocative efficiency of migration, and minimum wages and social insurance schemes (see for example Berry, 1975a, Berry, 1975b, Berry, 1977, Fields and Marulanda, 1976, Gregory, 1974, Gregory, 1986, Riveros, 1986, Tenjo, 1986, and Udall and Sinclair, 1982).

The importance of linking these two literatures is obvious. The microeconomic performance of the labour market is a crucial underpinning of the success of macroeconomic adjustment, and at the same time an important intermediary in the transmission of adjustment effects onto income distribution. There are some ongoing (and a few completed) studies linking the two literatures for Latin America. Ongoing studies include work by PREALC (for example a conference in Santiago in March 1988), an ongoing project by Riveros at the World Bank, and work on the public sector by Sabot (1988) both for Latin countries and other LDC's. There are also completed studies which go some way towards a synthesis,

e.g. Mann and Sanchez (1985). There are also other similar efforts for other areas of the developing world, e.g. work at the World Bank on sub-Saharan Africa co-ordinated by Noel, work by Mazumdar (1987) on East and Southeast Asia and work by Milne and Helleiner (1988) on Africa. The studies proposed here would complement and draw on other similar activities. Given the ready availability of labour force survey data for Latin American countries, there is an excellent opportunity for pursuing the labour market and macro adjustment issue in some depth.

### Issues

A number of issues have been identified as meriting study on a cross-country basis. These include:

- 1) The role of labour in macroeconomic performance: the relation between wages and the inflation process (in particular wage indexation and inflation); and the role of unemployment.
- 2) The effect of labour market functioning on economic growth via its effects on capacity utilization, investment and choice of technology.
- 3) The role of the labour market in transmitting the effects of structural adjustment to income distribution, via changes in unemployment, real wages, and participation rates.
- 4) The effect of declining expenditures on public sector employment and real wages; the productivity effects of falling real wages in the public sector.
- 5) The role of migration in adjustment, where sectoral shifts imply geographic shifts of labour (both urban-rural and urban-urban).

- 6) The response of marginal workers: the effect of recession on employment, schooling, and participation rates of young adults (especially those with higher education), and women.
- 7) The behavior of segmented labour markets during adjustment; changes in the institutions in segmented labour markets, such as legislation on social insurance payments and legislation on firings, etc.; the impact of worsening conditions of employment in the modern sector on the growth and productivity of informal sector activities.

A set of issue papers being prepared in a separate project will be of considerable help in refining the country studies (Kanbur and Mazumdar, 1988).

#### Proposed study

It is proposed to undertake a set of country case studies in four Latin American countries, to examine the role of labour markets during structural adjustment. These country studies would be of two types. For two larger countries with extensive existing literature on macroeconomic adjustment and on the labour market, the studies would primarily synthesize the existing literatures, using where necessary published data. For two smaller countries with more limited literature particularly in the area of labour markets, the studies would be somewhat more intensive, and would synthesize existing literature, and also conduct tabulation and some analysis of existing labour force survey data. The emphasis would be on examining a common set of issues, such that comparisons could be made across countries.



For the larger Latin American countries (Brazil, Argentina, Chile, Mexico, Colombia) there is a large existing literature on macroeconomic adjustment, a reasonable literature on labour markets, as well as some studies which link the two (e.g. Mann and Sanchez, 1985). Studies have documented effects of adjustment on real wages, unemployment, participation rates and poverty. For two of these countries it is proposed to undertake a critical review of the existing literature (including analysis of published macroeconomic and labour force data) to systematize what is already known. One priority will also be to point out areas for potentially fruitful future research, particularly research which could be readily done with existing labour force survey data.

For the smaller countries in Latin America rather less is known about the labour market/macro interaction, and labour market research is thinner. However there are existing data which could be used to examine adjustment and the labour market, at least for certain countries. For two such countries it is proposed to survey the macro literature, and such labour literature as does exist, and then to synthesize and interpret these in combination with some new tabulations and analyses of labour force survey data for several pre- and post-recession years.

The countries envisaged for the study are Brazil, Argentina (or Chile), Bolivia, and Costa Rica. The criteria for the choice include the desire to obtain a mix of experiences, whilst taking into account the availability of literature and of labour force data. The inclusion of one of the two major debtors (Brazil and Mexico) seems inevitable, and of these, Brazil has better labour force data. This will form an interesting contrast to one of the Southern Cone countries where labour

market institutions tend to be more modern, reflecting the level of development, and where the onset of some sort of adjustment was several years earlier. Both Argentina and Chile have a number of active researchers on labour market issues: Argentina has a fairly continuous series of labour force surveys for 25 cities, at six monthly intervals, and Chile has similar data: one of these two countries would be included. The other country mentioned above was Colombia, less because of its interest as regards adjustment (since the recession has been less severe), than because of the potential externalities from another project on education, labour markets, and income distribution, to be undertaken by Berry (1987).

As regards the smaller countries, Bolivia is an interesting case since it is the poorest country in South America, and hence possibly most readily compared with low income countries outside Latin America. It has also had a very severe recession and labour force shakeout in mining, and there are good studies on macroeconomic adjustment (e.g. Morales and Sachs, 1987). There is also at least one labour force survey in the recession period (from 1987) and several scattered ones in the preceding period. Finally the inclusion of Costa Rica is due to the timing and seriousness of its macro-economic crisis and due to its unusually good labour force survey data over a number of years, with a panel component. If either Bolivia or Costa Rica should prove infeasible, Guatamala is another possibility, since there is some existing work on the labour market there (Terrell, 1984).

### Participants and audience

The main audience is assumed to be policy makers in developing countries. Results will be disseminated as part of a volume edited by Kanbur and Mazumdar. Findings will also be available for incorporation in EDI workshops and training courses.

The project is to be co-ordinated by Albert Berry and Susan Horton. It is intended to involve two authors per case study, so as to bridge the two areas of labour and macroeconomics, since few economists have expertise in both. There would also be collaboration across the case studies to deal with common issues. For the two larger countries it is anticipated that an economist will be identified in each of the two countries concerned, who will both conduct an extensive review of the literatures on macroeconomics and on labour markets, and supply a bibliography. The Canadian counterpart will work in close collaboration with the country economist in the process of synthesizing the two literatures, and will put the country study into the context of recent macroeconomic and labour market theory.

For the two smaller countries it is more difficult to identify local researchers with expertise on labour markets. In this case a local researcher will survey the existing literatures, and the Canadian counterpart will not only synthesize these, emphasizing the issues discussed above, but also conduct some analysis of labour force data.

There will be close collaboration across the case studies: this can perhaps most easily be achieved by meetings in Canada. Interested participants from the Latin American countries are presently being explored: Canadian counterparts will most likely include Albert Berry

and Jaime Tenjo (Costa Rica), Susan Horton (Bolivia), Mick Devereux (Brazil) and Miguel Faig (Argentina or Chile). Country institutions to be contacted include FGV (Brazil), Instituto di Tella (Argentina), CIEPLAN (Chile), UDAPE and Universidad Catolica (Bolivia) and the national university in Costa Rica.

#### Organization and timetable

Before the project commences, there will be a conference in Warwick (April 1988) which will identify issues, to be followed by an issues paper by Kanbur and Mazumdar which will follow the conference. Two project phases are anticipated. In the first phase, July-December 1988, the case studies will be commenced: the country economists will have major responsibility for producing a first draft of the literature survey, and will supply a bibliography to the Canadian counterpart. Analysis of labour force survey tapes will commence for the two smaller countries.

In the second phase (January-June 1989) the Canadian counterpart will have major responsibility for producing the synthesis paper. These papers will be presented at a conference in June/July 1989. The conference will also include country participants from parallel exercises for Asia (Mazumdar, 1987) and Africa (Milne and Helleiner, 1988). Funding for the conference, to be held at Warwick University, is being sought from another source. Subsequently the studies will be published in a volume to be edited by Kanbur and Mazumdar, to be completed by December 1989.

Budget

It is assumed that the authors would be paid in two installments, half on completion of a satisfactory first draft, and half on completion of a draft suitable for inclusion in a volume.

Summary Budget

	<u>By Country</u>		<u>By Phase</u>		<u>Total</u>
	<u>"Large"</u> (two)	<u>"Small"</u> (two)	<u>I: July-</u> <u>Dec 1988</u>	<u>II: Jan-</u> <u>June 1989</u>	
Paper fees:					
• local	\$ 5000	\$ 3000	\$ 8000	\$ 8000	\$16000
• Canadian	\$ 3000	\$ 5000	\$ 8000	\$ 8000	\$16000
Travel:	\$ 2000	\$ 2000	\$ 8000	-	\$ 8000
Analysis:	-	\$ 5000	\$ 5000	\$ 5000	\$10000
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TOTAL	\$10000	\$15000	\$29000	\$21000	\$50000

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(DRC)

*work of Ruth Kenneth on Policy & the US economy  
(related with Riveros)*

Appendix 1: list of potential participants and affiliations

Albert Berry	Department of Economics, University of Toronto
Mick Devereux	Department of Economics, University of Toronto
Miguel Faig	Department of Economics, University of Toronto
Susan Horton	Department of Economics, University of Toronto
Jaime Tenjo	Department of Economics, St. Mary's University



Labour markets in Africa in an era of adjustment:

Study proposal.

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February 1988

## Introduction

Stabilization and structural adjustment are key issues facing countries in sub-Saharan Africa in the 1980's. Unless these countries adjust successfully, their long run growth prospects are poor. Labour market behavior is a vital part of the stabilisation and adjustment, both because of the role of labour mobility and real wage behavior, and also because the labour market is an important mechanism for transmission of the effects of macro performance and adjustment onto income distribution.

There is considerable interest in and work on the macro experience and adjustment in Africa. However the labour market has been rather less extensively studied, and the topic of labour markets in a period of retrenchment and adjustment has been barely touched upon. There are some studies of the migration process and of labour market segmentation in Africa, but the literature is less extensive than for other areas of the developing world.

It is proposed to perform case studies of three African countries, to relate the macro adjustment literature to the micro labour market literature. The individual case studies, as well as comparisons across them, will be useful for policy makers. The studies will be undertaken collaboratively between researchers in Canada and in the African countries concerned. The case studies will be discussed at a conference in June-July 1989, along with similar studies for Latin America and Asia and will ultimately be published in a volume edited by Kanbur and Mazumdar.

### Previous and ongoing research.

The macro experience and adjustment in sub-Saharan Africa are being extensively studied (Taylor, 1987, ILO, 1986, ongoing work by the OECD, etc.). There are also a number of studies of labour market issues in Africa, which have a bearing on the topic of adjustment. Studies of migration, the informal sector, the role of education etc., include Armitage and Sabot (1984), Barnum and Sabot (1977), Bienefeld and Sabot (1971), ILO (1985), Knight (1972), Knight and Sabot (forthcoming), Miracle and Fetter (1970), Sabot (1978) and Todaro (1969). There is ongoing work by Sabot (1988) on public sector pay and employment, which includes some African countries.

Few studies as yet have attempted to integrate the adjustment literature with the labour market literature (Ghai, 1987, is one exception). There is some ongoing work, e.g. a World Bank/UNDP project on the social impact of adjustment in sub-Saharan Africa which includes the labour market as one component. However much more remains to be done. For countries which have labour force survey data already collected, there is a good opportunity to integrate the labour market and adjustment literatures, and to formulate and test hypotheses about the role of the labour market in the adjustment process. To a large extent these government labour force data are underutilized. These national surveys could be particularly useful for the present study if they were available both pre- and post-recession.

### Issues

A number of issues have been identified as meriting study on a

cross-country basis. These include:

- 1) The role of labour in macroeconomic performance in economies still dominated by agricultural and mining activity: the relation between wages and the inflation process both in formal and informal sectors; and the role of unemployment.
- 2) The effect of labour market functioning on economic growth via its effects on capacity utilization, investment and choice of technology.
- 3) The role of the labour market in transmitting the effects of stabilisation and structural adjustment to income distribution, via changes in employment, real wages, and participation rates.
- 4) The effect of declining expenditures on public sector employment (both government and parastatal); the productivity and motivational effects of falling real wages in the public sector.
- 5) The role of migration in adjustment, where sectoral shifts imply geographic shifts of labour.
- 6) The impact on and response of marginal workers: the effect of recession on employment and participation rates.
- 7) The behavior of segmented labour markets during adjustment; changes in the institutions in segmented labour markets, such as legislation on social insurance payments and legislation on firings, etc.; changes in overall wage structure e.g. age/sex/skill/public-private/urban-rural differentials.

A set of issue papers being prepared in a separate project will be of considerable help in refining the country studies (Kanbur and Mazumdar, 1988).

Proposed study.

It is proposed to undertake case studies of three countries in sub-Saharan Africa, to examine the role of labour markets in structural adjustment. The emphasis will be on addressing a common set of issues, such that cross country comparisons will be possible. Each country study will summarize the existing literatures on the labour market and on macro stabilisation and adjustment, and will then use existing labour force surveys pre- and post-recession to examine the role of the labour market in the adjustment process.

The choice of countries is determined by the desire to see a range of experiences, whilst at the same time being constrained by data availability. Few African countries have labour force surveys dating after the onset of adjustment. The countries envisaged here are Kenya, Cote d'Ivoire, and either Ghana or Zambia. Although this is somewhat biased towards the higher income countries, this is dictated by data availability. One advantage however is that comparisons with countries outside Africa will be facilitated.

Kenya has been studied in great detail, both in terms of the macro adjustment literature (Swan, 1987, van der Hoeven, 1987, van der Hoeven and Vandermoortele, 1987), and the labour market (Armitage and Sabot, 1984, Barber and Milne, forthcoming, Bilsborrow et al, 1986, Collier and Lal (1986), Fallon, 1985, Ghai and Godfrey, 1979, Knight and Sabot, forthcoming). There are government labour force surveys for the pre-recession period of 1977-8 (Kenya, 1986), as well as a World Bank sponsored survey in 1980 (Knight and Sabot, 1983), a recent urban labour force survey which includes some income data which will shortly be

available from the Central Bureau of Statistics, and a planned labour force survey in 1988. Kenya is also an interesting case of a sub-Saharan African country with relatively good growth performance in the past, which was hard hit by recession, particularly via the effect on prices of primary agricultural exports.

Cote d'Ivoire is another example of a country with good growth performance, which was adversely affected by external events. It likewise has a literature on macroeconomic adjustment (Michel and Noel, 1984, Devarajan and de Melo, 1986), as well as a number of labour market studies. It also has possibly some of the best micro data available for any sub-Saharan African country (World Bank LSMS projects). Ongoing work on the labour market in Cote d'Ivoire by Fields may also be very useful for the present study.

For the third country to be studied it is desirable to include one of those which were relatively less successful prior to the structural adjustment phase. The present contenders are Ghana or Zambia, the final choice to be determined by data availability. Ghana is of interest as a country whose structural adjustment has been cited as a success on macro grounds, and which prior to that had a decade or more of negative economic growth and stagnation. There is a sizeable literature on macroeconomic adjustment (e.g. Loxley, 1988), as well as work on poverty and structural adjustment (UNICEF, 1985, Ubogu and Umo, 1986), if relatively little on the labour market and structural adjustment. Another consideration is that Ghana may be a case study in Sabot's (1988) work on the public sector, with possible gains from complementarity. Zambia is another interesting case, as a mineral exporter hard hit by

recession. There is some work there on stabilisation (e.g. Ndulo and Sakala, 1987, and Young, 1988). The final choice will depend on obtaining access to labour force survey data pre- and post-recession.

Audience and participants.

The main audience is assumed to be policy makers in developing countries. The results will be disseminated as part of a volume edited by Kanbur and Mazumdar. The findings will also be available for incorporation in EDI workshops and training courses.

The project will be co-ordinated by Bill Milne and Gerry Helleiner. There will be two authors per case study, one from Canada and one from the country concerned. There will also be collaboration across the case studies to address common issues. The country participant will be responsible for a thorough literature survey in the macro and labour market areas, for providing references, and for assisting with use of the survey data. The Canadian participant will be responsible for synthesizing the literatures and for overseeing the analysis of the labour force survey data.

The Canadian authors include Bill Milne (Kenya), Paul Beaudry (Cote d'Ivoire), and one other as yet to be determined (Zambia or Ghana). There will be collaboration across studies, to be achieved by meetings between authors of different country studies, which will most likely take place in Canada. There will also ultimately be a conference presenting the results of the African country studies, as well as parallel exercises for countries in Latin America (Berry and Horton, 1988) and Asia (Mazumdar, 1987). Separate funding is being sought for such a

conference.

Organization and timetable.

It is anticipated that there will be two phases: phase I from July-December 1988, and phase II from January-June 1989. Before the project commences, there will be a conference in Warwick (April 1988) which will identify issues, and from which an issues paper will be drafted by Kabur and Mazumdar. In phase I the case studies will be commenced. The country specialists will produce a first draft of the literature survey, and will supply a bibliography to the Canadian counterpart. Analysis of labour force survey data will commence.

In phase II the Canadian counterpart will have major responsibility for producing the synthesis paper. A draft will be available for a conference in June/July 1989. This conference will take place at Warwick University in England, and is to be funded from a separate source. The Canadian counterpart will have responsibility for revisions subsequent to the conference, such that the paper can be ultimately included in a volume to be edited by Kanbur and Mazumdar.

Budget.

It is assumed that the authors and co-ordinators would be paid in two installments, half on completion of a satisfactory first draft, and half on completion of a draft suitable for inclusion in a volume.



Summary budget

	<u>By country</u>	<u>By phase</u>		<u>Total</u>
	(three studies)	I: July- -Dec 1988	II:Jan- -June 1989	
Paper fees:				
- local	\$3000	\$4500	\$4500	\$9000
- Canadian	\$5000	\$7500	\$7500	\$15000
Co-ordinator fee:	\$500	\$750	\$750	\$1500
Travel and co-ordination	\$4000	\$12000	-	\$12000
Analysis	\$4000	\$6000	\$6000	\$12000
<hr/>				
TOTAL	\$16500	\$30750	\$18750	\$49500

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