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WAGE POLICY AND INCOME DISTRIBUTION
IN DEVELOPING COUNTRIES

by

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"In the House of Commons on Thursday, Mr. Moore on presenting a petition from the ribbon and silk weavers of Coventry, moved for leave to bring in a Bill for increasing the present low prices of manufacture. Mr. Moore stated that workmen were divided into five classes, all working 16 hours a day, or 96 hours a week. The first class did not earn more than 10s a week, being about 2-1/2d, for every two hours of the hardest kind of labor; the second class earned 5s. 6d. a week; the third 3s 9d.; the fourth 2s; the fifth 18d. or about 3d. for 12 hours' labor. The motion being generally opposed, Mr. Moore withdrew it." (From The Observer, Monday 17, May 1819.)^{1/}

"The Child Care Center will give free attention to maternity cases and to babies, for employees up to class 40 on the attached table, as well as their respective dependents." (Clause 16 of the 1959 Collective Agreement with the Workers' Union at the Volta Redonda Steel Works in Brazil).^{2/}

I. Introduction

The stark contrast between the world of the Coventry ribbon weaver in 1819, and that of the Volta Redonda Steel worker in 1959, cannot be attributed to general economic development in Brazil; about half the Brazilian population in 1959 lived on incomes between \$50 and \$100 p.a.^{3/} Nor can it be imputed solely to an improvement in labor and welfare legislation. At the San Pedro sugar plantation in North-east Brazil, for instance, "Two-thirds of the heads of households made less than the legally established minimum daily wage... which was then approximately U.S. \$0.90... Three-quarters of the family heads were illiterates; 83 per cent of the children of school age were not going to school."^{4/} Yet, 80 per cent of the heads of households were union members.^{5/} Despite minimum wage laws, an officially recognized union, and a relatively large firm (about 2,000 workers), the average farm workers' income at San Pedro was \$0.50 a day.^{6/}

These contrasts -- both over time, and within one poor country -- raise questions regarding the actual, and the desirable contribution of wage

policy. Clearly these contrasts are the joint result of greatly changed labor policies (along with underlying attitudes - in part, a demonstration effect of developed countries), and of a different, much more dualistic structure of economic growth.

On first examination, wage policy appears central to any redistributive program. Most inequality in poor countries can be broken down into that within labor -- the labor "elite" vs. the rest of the labor force -- and that between capitalists and workers. The obvious redistributive approach is to level wages, and raise them at the expense of capital income. Also, since many of the rural poor are part or full-time wage-earners, any attack on rural poverty is almost certain to require higher rural wage levels. Thus, it is hardly surprising that wage increases are the most familiar feature of redistributive political programs.

Yet there is a broad consensus amongst economists that wage increases are, by and large, "the easy solution" but a "most unfortunate" ^{7/} approach to income redistribution in LDCs. This generally negative attitude towards wage increases is supported by three different arguments: such pressure is held to be (a) futile, because for most of the labor force, and in the long run, market forces will dominate, (b) inequitable, because it benefits a relatively small "middle income" group rather than the mass of the poor, and (c) harmful, because it reduces employment by increasing capital-intensity in the modern sector, and slows growth by reducing savings. There is, of course, some inconsistency between the futility and the bad-effects arguments, but each may be valid in different situations.

This paper is a review of the arguments and the evidence regarding the impact of wage policy on income distribution in LDCs. Following this intro-

duction, the impact of wage policy on income distribution will be traced by examining policy formulation (Section II), policy implementation, particularly as it is constrained by market structures (Section III), and the direct impact of policy on the wage levels of target groups (Section IV).

Direct effects on current wage levels are only half the story of wage policy. Wage changes have indirect consequences throughout the economic system. The most important of those repercussions are those which affect factor choice and employment absorption in the modern sector, and those which affect growth. These repercussions have distributive effects which, in the long run, may be more significant than the current redistributive potential of wage policies. This chapter, however, deals only with direct impact; the indirect impact is discussed in both the income distribution model contained in the introductory chapter by Frank and Webb, and in Bruton's analysis of trade and industrialization policies. Also, rural wage policy is not dealt with here. Though the principal target group for distributive policy are the rural poor, many of whom are chiefly wage-earners, most wage policy, in practice, is directed at urban and modern sector workers. This omission is compensated to some extent by the discussion of farm productivity strategies and of rural employment creation through public works in the chapters by Cline and Lewis respectively.

I define wage policy here as being aimed at either (i) raising, (ii) maintaining, or (iii) lowering the market wage that would obtain in absence of government wage measures. In this sense, policies can be described as being pro-labor, neutral or pro-capital. ^{8/} By "government measures" I refer to current measures, since today's "market" wage is obviously partly determined by the history of government acts that have helped to shape market structures.

Secondly, "wage measures" are defined here more broadly than is usual, in that they include direct wage-setting, institutional or legal changes (such as strike laws) that indirectly affect wage outcomes, and administrative partiality in the application of rules that affect collective bargaining outcomes. Other aspects of labor policy, such as social security laws, and the effects of job security laws on the choice of technologies, are not discussed here. Finally, policy refers to intent rather than outcome.

I. Policy Formulation

1. The Variables

The choice of wage policy is complicated by the variety of (i) policy objectives, (ii) target groups, and (iii) policy instruments involved.

Wage policy is relevant to at least four separate political and economic goals: equity, growth, price stability and political stability. This chapter is concerned with the first, but wage policies are in practice formulated with these several ends in mind. Furthermore, each of these objectives may require wages to rise or to fall in different circumstances. Two basic target groups will be studied - modern and traditional ^{9/} sector wage-earners, since policy must allow for the very different market characteristics and usually different income situations of each. Finally, a major concern of wage policy is with differentials between various categories of workers such as skilled and unskilled, white- and blue-collar, and with regional and racial categories: again, wage policy may seek to increase or reduce those differentials.

Wage policy is implemented through a particularly broad and varied set of instruments. These operate on two levels. The first involves intervention,

both administrative and legal, in the current wage-determination process. It includes the normal decisions regarding government employee pay-scales, and the occasional direct wage-setting for the private sector, particularly during rapid inflation. It includes the greater or lesser government participation in the setting of minimum wages, and in collective bargaining, usually through tripartite boards. Finally, it includes the administrative and judicial implementation of labor and price legislation.

Wage policy also operates at a second level by modifying the wage determination environment, namely the institutional and legal framework, and the economic structure of labor markets. The most obvious of such changes consist of legislation regulating union activity -- their legal status, whether and when strikes are allowed, whether and how union funds can be collected, job security for union leaders and strikers, etc. Less obviously, government can affect market outcomes by changing the structural characteristics of the market in ways that affect the degree of competition. Tariff protection, for instance, creates monopoly rents that invite wage increases. Conversely, export-promoting policies will make the business sector more cost-conscious; exporters are less able to pass on wage increases by raising prices.

One effect of this two-tiered influence on wages is that it makes wage policy more flexible. A government that is sympathetic to labor, for instance, can make basic changes in the rules of collective bargaining to favor labor in future negotiations and simultaneously hold down wages to meet immediate stabilization or growth targets. Second, it becomes more difficult to know what a government is actually doing -- whether its actions are biased towards raising or lowering wages-- since it can be acting in different directions at these two levels. Third, changes in the institutional and economic environment

of collective bargaining tend to outlast the particular bias of the regime or regime-period. The history of labor policy in most countries records a series of legislative advances in favor of labor. Such advances have tended to cumulate, ratchet-wise despite political vicissitudes, because legislative reversals required major political shifts against labor.

2. Policy Choice

Wage policies seem to cluster around three main approaches which can be described respectively as (a) the low-wage policy (b) the industrial consensus approach and (c) the pro modern sector labor approach aimed at evolutionary political radicalization. While, contrary to most preconceptions, high-wage policies aimed primarily at redistribution are the exception. Each of these approaches is consistent with particular economic settings and political priorities. Elements of each may be found at any one time in a given country. The combination of a pluralist government with a policy that can be implemented through several instruments lends itself to confused political sharing, where each view regarding that policy can appear to be satisfied to some extent -- like a boat built with several rudders, being steered simultaneously by several captains. Policy intent is easier to define when only one major instrument is available. Thus, there is no such easy way of appearing to satisfy opposite views on the relative priority of mass rural schooling; the schools are either built or not.

The ambiguity of labor policy results from the variety of instruments that are relevant to wage levels and that may easily operate in conflicting directions. Ambiguity also results from the continuous nature of labor policy-making: wage levels are being decided continuously by the joint

influence of market and government forces so that governments can easily modify, and even reverse over short periods, the intensity and direction of their intervention, especially, of course, in inflationary environments. Finally, complications arise from the dual function of wages -- they are simultaneously a distributive objective, and a key instrument for other objectives such as stability and overall growth.

Despite such identification difficulties, it is possible to find cases where policy appears to be dominated by a stress on low wages, or on collective bargaining (consensus), or on the institutional reinforcement of organized (and "organizable") labor. There is surely a correlation between the political strength of a regime and the choice between these wage policy alternatives.

The low-wage approach could be called the orthodox policy preference of economists. It aims principally at keeping modern sector wages low, but it is not inconsistent with (low) minimum wages that would prevent "exploitation" and provide a welfare floor to the very poor. It is advocated both on grounds of growth and of equity. Most economists would still subscribe to the argument that savings are likely to be higher in a low-wage, high-profits economy either because of the nature of workers' and capitalists' savings propensities, or because profit income is easier to tax. This traditional argument for low wages is now reinforced by the employment and equity case against "high-wage islands".^{10/} On the other hand, this line of economic reasoning, i.e., low wages to encourage rapid, labor-absorbing modern sector growth, leads to acceptance of skill, occupational and even regional wage differentials required to draw labor into high productivity activities.^{11/} Acceptance of such differentials, which may at times be large and growing,^{12/} weakens the short-run equity case for this approach but it can

be argued that the more important result for the poor is that employment absorption into the modern sector is accelerated and, therefore, that poverty is reduced more rapidly.

It seems obvious, however, that only strong governments can adopt a low-wage policy. Such a policy seems to require more than government neutrality; it usually involves active suppression. Part of the reason lies in the well-known organizational and tactical resources of modern sector labor, and part of the reason has to do with legitimacy. Of all redistributive claims, wage demands surely have the highest degree of moral legitimacy. For most people "justice" is primarily "desert", or receiving what one has produced. The notion of equal sharing, or sharing based on need, is a more abstract and less powerful mover of men. Wage demands carry a claim to desert to the fruits of one's own labor that is not enjoyed, for instance, by the appeal for higher agricultural prices, or for larger public expenditures in rural areas.^{13/} Strong alternative moral claims can be used to offset wage demands. Such claims are provided, for instance, by the highly egalitarian content of Cuban and Chinese policies, and by the Arusha Declaration that provided the basis for the 1967 reversal of wage policy in Tanzania. National emergencies, such as those created by war, or risk of war, can be another substitute. They surely gave some legitimacy to anti-union policies in South Korea and Taiwan thus easing somewhat the degree of repression applied in these countries. Failing such powerful moral substitutes, however, low-wage policies generally require considerable repression of the natural political power of modern sector labor.

The industrial consensus approach is most identified with collective bargaining, which minimizes government participation, but it includes the

corporate approach to wage determination where government comes close to direct wage setting. The common element is a largely politically motivated stress on consensus, on industrial peace. The guiding economic principle for wage settlements of this approach is capacity to pay.

The collective bargaining approach has been the standard policy prescription of the ILO and of many labor economists.^{14/} It places priority on the development of a balanced, smooth-running, industrial relations machinery with the double objective of minimizing government "interference" in labor markets, and either minimizing or institutionalizing industrial conflict. The wage outcome is given less importance than the procedure; or else, it is argued or presumed that an efficient labor market will generate the "best" wage outcome. Since balanced bargaining forces are an essential ingredient in this approach, and since labor has traditionally been organizationally weaker than business, the collective bargaining approach has generally stressed the institutional reinforcement of labor. Perhaps more important than the wage outcome, however, is the political attractiveness of a wage-determination process that minimizes both labor conflict, and government input.

Though the preference for collective bargaining is largely independent of any desired wage outcome, in practice it is commonly associated with what is close to a golden rule for wage determination: wages should rise in line with productivity. There is a presumption that "balanced" collective bargaining will tend to produce this outcome, and that such an outcome is socially just and efficient.

Liberal and anti-communist ideologies have also contributed to the widespread avowal, if not adoption, of collective bargaining as a wage-determination process. The ILO, AID and AIFLD^{15/} have reinforced these ideologies

through recommendations, training programs and financial support for non-communist unions. ^{16/} These ideologies have generated support for pro-labor policies that consist of institutional reinforcement, but they have inhibited wage planning and direct wage determination by government.

Few governments do not officially subscribe to the principle of collective bargaining as the desirable mode of wage-determination. In practice, however, a stress on collective bargaining remains a model or ideal for most LDCs. The rule is greater or lesser government involvement ranging from un-aggressive participation in tripartite wage boards, to almost direct wage-setting through highly detailed regulations of most working conditions and strong pressures to force settlements and accept government mediation.

The former, or less government participation, is likely to characterize weaker governments, while the latter is found in countries with strong corporatist, nationalist ideologies. In weaker governments it is often harder to identify any dominant wage policy approach at all because competing groups simultaneously pursue different policies, most notoriously in inflationary settings: pro-labor factions obtain large wage increases while pro-business groups block price and profit controls. Government implementation of labor market rules and mediation in disputes may be highly erratic and inconsistent with regard to its bias. A natural political defense in such settings is to proclaim the ideological virtues of collective bargaining, and to allow the stronger market forces, by and large, to win out, despite the existence of official wage targets for stabilization and growth purposes.

A strong preference for political stability, and therefore for industrial peace, has characterized governments with corporatist and national ideologies. The populist ideology of Kemal Ataturk, for instance, stressing

absolute unity of the Turkish people, was accompanied by a rejection of class conflict and class-based organizations. His prohibition of unions and stress on public arbitration may be interpreted as a low-wage, rather than neutral, collective bargaining attitude, but the intention seems to have been strongly oriented to ensuring consensus rather than imposing a pro-business wage policy. ^{17/}

Mexican wage policy during most of the period since 1910 has been similarly concerned with avoiding the political instability created by class conflict, ^{18/} via the incorporation of labor into the ruling party power structure, and through a wage policy strongly guided by the ability to pay criterion. ^{19/} A striking example of a corporatist attempt to eliminate class conflict through legislation on profit sharing and wage determination is provided by the recent Industrial and Social Property Laws of Peru. Publication of these laws was accompanied by explicit reference to the expected elimination of class conflict. ^{20/}

The third policy approach, favoring modern sector labor organization, is a straightforward political strategy. I am not referring simply to vote-buying wage increases, but to the longer-run strategy aiming at eventual transfer of power to labor as a whole, a strategy which accepts the necessity and feasibility of beginning with the more easily organized and potentially powerful modern sector workers. The underlying presumption is that strengthening the political power of modern sector labor will indeed make possible a next step involving transfer of power to traditional sector workers.

A paradoxical result is that political groups on the left, who are presumably most concerned with equity, find themselves defending measures that favor modern sector workers and which are likely to hurt the very poor, at

least pending the day that a revolutionary transfer of power becomes possible. Another implication of this approach is that, if successful, it is self-liquidating: once a socialist regime has been established, the goals of equity and rapid growth take precedence, and they necessarily require the retraction of privileges previously given to modern sector labor.

A common pattern in many developing countries has consisted of a switch from an early, largely politically motivated support for labor to greater emphasis on an incomes policy and on wage restraint. This was noted, for instance, by Arthur Lewis, who wrote that "Recognition of the connection between wages and employment has opened up a gulf between trade-union leaders and political leaders in new states, especially where the government is the chief employer of labor, or is concerned about the adverse effects of high wages on exports, import-substitution and employment, or even prefers high profits to high wages because it can tax profits more easily than wages. Governments have therefore begun to think in terms of an incomes policy."²⁴

The above discussion has treated wage policy formulation as if it were guided solely by long-run economic and political objectives. To a considerable extent, however, wage policy has been the product of short-run stabilization needs. Continuing instability has converted successive short-run wage targets into the ex post long-run wage policy. The standard wage prescriptions of stabilization programs are wage restraint and the golden rule, i.e., wage gains limited to productivity increases. Stabilization goals of themselves, however, have rarely been the basis for the imposition of a long-run low-wage policy. For one thing, the belt-tightening required by stabilization programs is generally sold by alleging a relatively balanced or equitable contraction of incomes; this opens the way to prompt readjustments when wages fall too far behind

other incomes. Also, the recessions that often accompany stabilization efforts create an incentive to raise wages as a quick way to increase aggregate demand. In Chile and Argentina, such readjustments have accompanied the continuing and cyclical course of inflation over the last two to three decades. In the second place, stabilization targets commonly enshrine the "wage increases equal to productivity gains" rule which runs counter to the stricter rules of a low-wage policy. Stabilization income targets therefore tend to produce long run-wage outcomes similar to those of a smooth-running collective bargaining machinery, despite sharp, short-run fluctuations in real wages.

The basic wage policy alternatives described above are complicated in practice by other considerations. The standard growth and employment argument for low wages, for example, has at times been challenged by the "need for a large internal market" argument. One form of this argument is that which asserts that consumption by profit recipients has a higher import and capital content and, therefore, that a redistribution of income to wage-earners will lessen pressure of the foreign exchange and capital constraints, thereby permitting faster growth.^{22/} This view reinforced the redistributive intent of wage and price policies of the Allende regime during 1970-1971. So drastic a redistribution would not have been attempted on political or equity grounds alone: they were supported by a conviction that wage gains would accelerate industrial growth.^{23/} The internal market argument, along with preventive politics has also been cited as a factor in the switch in South African wage policy for Black wage-earners. After a deliberate policy decision in 1957, the Wage Board began to enforce wage readjustments that led to an average 2-3 per cent annual increase in real wages between 1957-58 to 1966, though wages for Whites have been rising even faster.^{24/} A similar mix of preventive

political relaxation, with a concern for an adequate domestic market may have contributed to the relaxation of the severe low-wage policy followed in Brazil between 1964 and 1968-1969.

Another basic element in the choice of wage policies concerns minimum wages. The general acceptance of non-intervention in labor markets is reversed with reference to minimum wages: the state is commonly expected, and often constitutionally required ^{25/} to ensure that its citizens at least survive. Over the last two decades minimum wage legislation has become generalized, though only recently in many countries: thus, the first national minimum wage laws in Peru were legislated during 1964-65; in Honduras a general system of minimum wages was established only this year. The issue regarding minimum wages has become less their existence than their level, and particularly, the extent of adaptation to existing regional-sectoral wage differentials. Considerable adaptation, which amounts to acceptance of a capacity to pay criterion, is the rule; less frequent is imposition of uniform "need" based rates either nationally or for broadly defined regions. In India, for instance, despite an egalitarian orientation and the constitutional requirement of a "living wage", the Supreme Court has repeatedly upheld the principle of regional-sectoral differentials in minimum wage rates and the resulting differentials appear to exceed regional cost of living variations. ^{26/}

Immediate distributive considerations are necessarily in the forefront of day-to-day decisions regarding wage claims. Governments directly affect the income distribution each time they legislate or decree wage rates or benefits, or mediate in disputes, or refuse to mediate. Yet the choice between the major alternative wage policies that underlie daily decisions appears to be much less

a statement of distributive preference than a response to other, often more pressing economic and political goals. Since growth is the primary concern of many, if not most of those governments (on both the left and the right) that are not entirely absorbed in day-to-day political survival, it seems fortunate that a low-wage policy appears to be best for both growth and poverty reduction. However, where equity is not a major objective of the low-wage policy, other necessary conditions for achieving both rapid and labor-absorbing growth may not be met,²⁷ in which case low wages will hurt the poor in both the short and long run.

Likewise, redistribution is not the primary consideration leading governments to stress collective bargaining as a wage policy, or even to adopt pro-labor policies when those measures are limited to modern sector wage-earners. In both cases, the objectives are more immediate and are primarily political. Moreover, both, in practice, discriminate in favor of modern sector labor, either deliberately, or indirectly by rigging the market in such a way that wage rates are strongly influenced by capacity to pay. These implications of wage policy choices are developed in the sections on policy implementation and policy impact.

III. Policy Implementation and Market Structures

The distributive impact of wage policy depends as much on the manner in which it is implemented as on the basic direction of policy. Furthermore, policy acts on, and through an economic structure. This section will discuss some characteristics first, of wage policy implementation, and second, of labor markets, that have a bearing on how policies affect wages.

1. Policy Implementation

The distance between laws and implementation is often great.^{23/} However, this gap is not a measure of frustration between policy intent and achievement. In the first place, ambitious legal targets are commonly in advance of expected and even intended short- and medium-run implementation:"The function of the written law in some of the Latin American countries is sometimes more educational than normative."^{29/} More importantly, legal comprehensiveness and complexity combined with traditions of weak judiciaries and of greater state involvement in wage-determination, gives executives more opportunity for discriminatory application of the law. "Labor law in (Latin America) is extremely complex and regulates virtually every aspect of worker activity. For administrative and political reasons, its provisions are often selectively or arbitrarily applied."^{30/} The institutional and legal frameworks, inherited by a particular regime (be they defensive or suppressive of labor), are thus less of a constraint on current preferences. An illustration of the strength of administrative action vis-à-vis the law is seen in the growth of the labor movement in Colombia under President Alfonso Lopez (1934-38). "... the growth of unionism after 1931...is not the result of legislative recognition of the right of laborers to organize Colombia. Rather, the development of the labor movement in this period can be accredited, in large measure, to the informal support which the executive branch of the government gave unionism and to the manner in which that executive interpreted the law... For example, the government mediation of labor-management disputes often consisted of executive pressure on companies to bargain and give concessions, and the initiative for the creation of unions often came directly from the labor office."^{31/}

Inflation may be another source of wage policy flexibility in developing countries. Certainly real wages often move sharply over short periods. Even in Chile, with its long experience of continuous inflation, annual growth in real wages between 1960 and 1970 ranged from -8.7% (1962-53) to +15.5% (1966-67).^{32/} This is not proof that permanent adjustments are more easily made under inflation, but it suggests that, at least, inflation makes it easier to put a foot in the door when a permanent redistribution is intended as in Brazil after 1964. A contrary argument, however, is that inflation raises awareness of distributive gains and losses caused by price and wage movements, and increases pressure on the state to intervene in defense of group interests. As a result, the government may lose some of its power to pursue either a given wage target, or a collective bargaining "hands off" wage strategy.

A second characteristic of policy implementation concerns coverage. This point ties in closely with the dual nature of labor markets, discussed below, and it may be considered a special case of the laws vs. practice point. It is notorious that the degree of enforcement of labor laws is much higher in large firms, and in urban areas. This is true over and above the frequent legal discrimination between large and small firms: thus unionization is usually restricted to some cut-off firm size.^{33/} Labor inspectorates appear to be administrative Cinderellas relegated by both low-wage and pro-labor regimes, since the latter concentrate on either major wage agreements or on the creation of new unions, rather than on policing existing legislation. Despite its advanced labor legislation, the Chilean Labor Inspection Department in 1966 had only one vehicle, and a staff that could scarcely cope with routine inspections.^{34/} And despite the authoritarian regime of Guatemala,

it is widely believed in that country that labor inspectors can venture into many rural areas only at the risk of their lives. Two possible measures of the degree of discrimination in the enforcement of wage laws against workers in small firms, and against farmworkers in general, would be first, the number of small-firm workers receiving less than the minimum wage, and second, the proportion of the rural labor force that legally could be, but is not unionized.

The substantial discrimination that generally characterizes enforcement of labor laws cannot be entirely attributed to the nature of implementation. Discriminatory enforcement has two components: one is indeed a departure from the announced or legislated policy intent that can be explained in part as an administrative failure, but mostly as an accommodation to differential feasibility of enforcement, since laws and administrative systems rarely admit or provide for the differential costs of enforcement. A second, and perhaps major component of discriminatory enforcement, however, cannot really be called a "slippage" at the level of implementation but is rather a deliberate administrative expression of a wage policy that wishes to give due allowance to the capacity to pay. In other words, to a large extent, enforcement is not intended for much of the small-scale and rural sector, despite the all-embracing language of legislation. This blurs the distinction between policy choice and its implementation, but there is surely an element of both administrative bias or slippage in enforcement, and unwritten discriminatory intent in policy as it is implemented. ³⁹

This distinction is not academic. To the extent that discriminatory enforcement is really unwritten policy (i.e., there is a majority consensus

within government on its desirability or necessity given market or administrative constraints) then a change in policy output, e.g., more widespread enforcement of minimum wage laws, would require more than reprimands and/or additional budgetary support for labor inspectors. It requires a change in policy. One of the first acts of recently elected President Lopez Michelson of Colombia, for instance, was to suspend a majority of the government's labor inspectors on the grounds that the widespread payment of wages below the legal minimum was prima facie evidence of supervisory failure.^{36/} I suspect that if tighter supervision now becomes the rule, it would amount to a change in policy, requiring therefore substantial support within the Lopez government, rather than a simple administrative improvement. Of course, such a change in policy requires also that broader supervision is not offset by a more discriminatory evolution of the structure of minimum rates, i.e., by the extent to which the previous unwritten law becomes written law.

2. Market Structure

Market structures in developing countries impose two substantial constraints on wage policies: first, they severely limit the reach of such policies; and, second, they create upward wage pressures within modern sectors.

(a). Coverage of wage policies

The redistributive potential of wage policies is limited firstly by the relatively large self-employed component of the labor force. Table 1 below shows that in most developing countries the self-employed make up about half or more of the active population. The share of employees in the total labor force is lower in the poorer countries and tends to rise as countries develop. Wage policies can obviously benefit or hurt the self-employed indirectly, chiefly through modern sector employment and growth effects,^{37/} but

the potential redistributive impact of wage policies on the self-employed is comparatively slow, small, and one-sided in that they more easily hurt than help the self-employed.

In practice, however, the relevant limitation on coverage is the size of the urban and modern component of the wage-earning sector, i.e., firms where wages and working conditions can in fact be controlled. The enforceability of pro-labor policies declines rapidly with size of firm, and is lower in rural than in urban areas. In agriculture, the size threshold of enforceability is a much larger firm than in the urban sector and is enormously complicated by the prevalence of seasonal employment, "piece rates", particularly in harvesting, and pay in kind. The threshold of enforceability will vary with the government's administrative effectiveness, and with the particular instrument involved, e.g., minimum wages are more broadly enforced than compulsory pension schemes. Finally, the degree of unionization, and particularly the strength of industrial or occupational rather than enterprise unions will also affect the margin of enforcement. Nevertheless, the major determinants of enforceability are size and urban presence.

Table 1. Structure of Labor Force ^{a/} in Some Developing Countries

<u>Country</u>	(as percent of total labor force)			
	<u>(1)</u> Census Year ^{b/}	<u>(2)</u> Total Employees	<u>(3)</u> Non-farm Employees	<u>(4)</u> Modern Sector Employees ^{c/}
Argentina	1960	70	61	
Uruguay	1963	71	61	
Chile	1970 (1960)	70 (73)	57 (54)	(27)
Venezuela	1961	61	50	28
China (Taiwan)	1966 (1956)	53 (37)	50 (31)	
Brazil	1970	55	43	
Mexico	1970 (1960)	62 (64)	43 (35)	
Panama	1960	48	40	21
Costa Rica	1963	66	40	
Colombia	1964	57	37	18
Iran	1966	48	37	16
Ceylon	1963	65	36	
Egypt	1966 (1960)	54 (49)	34 (30)	(20)
Algeria	1966	68	33	
Peru	1961	48	32	13
Iran	1956	46	30	
W. Malaysia	1957	56	30	
Korea	1966 (1960)	32 (22)	27 (18)	16
Ecuador	1962	47	26	
Morocco	1960	38	25	
Philippines	1960	29	22	
Indonesia	1971	32	17	
Ghana	1960	21	15	8
India	1971 (1961)	17 (30) ^{d/}	16 (12)	(6)
Turkey	1960	19	14	6
Thailand	1970 (1960)	13 (12)	11 (9)	(5)
Pakistan	1961	20	10	
Nepal	1961	16	3	

FOOTNOTES:

(a) Unemployed and persons seeking first employment were subtracted from labor force totals in most countries.

(b) Bracketed figures correspond to the earlier census.

(c) The basic criterion for "modern sector" status was size of firm. Since size was not known in many cases, common sense approximations were used. Thus, non-agricultural employees from column 3 were broken down by broad industrial category (ISIC 1-9). The employees in each category were then classified as modern or traditional using the following methodology:

ISIC 1: mining: all modern; ISIC 2-3: manufacturing: modern = employees in enterprises above a given size (this was usually 5 or 10 workers, but for India it was 20 for industries not using power, for Ghana it was 30, and for Venezuela it was the reporting firms); ISIC 4: construction: all traditional; ISIC 5: electricity, gas, water and sanitary services: all modern; ISIC 6: commerce: 20% modern, 80% traditional; ISIC 7: transport storage and communication: 80% modern, 20% traditional; ISIC 8: services: government = all modern, domestic servants = all traditional, the remaining portion of services was then distributed 1/3 modern, 2/3 traditional; ISIC 9: activities not adequately described: 50% modern, 50% traditional. In addition, persons in ISCO major groups 0-2 (Professional, technical and related workers, administrative, executive and managerial workers, and clerical workers) who were classified as employees, own account, family workers, or others (i.e., the non-salaried or wage-earners status category) were added to the wage-earners since they were considered modern sector. In most countries this increased the modern sector size by 1 or 2 percentage points.

Construction workers are not easy to classify: most are low-skilled; many workers in large firms or projects but have high turnover. In some countries however, (e.g. Peru) they have as much political and union clout as factory workers, perhaps because the practice of cost-plus contracting in public construction projects made government interventions in wage-setting an early necessity. Once identified as the direct wage-setter, the government is politically more vulnerable to wage demands; and "minimum profitability" cannot be used as a defense against large wage demands. This also applies where cost-plus pricing is common in much of private sector construction.

(d) The number in parenthesis is the percentage share of employees in the EAP if 31 million persons classified as agricultural laborers in the status "other" and "unknown" are added to the 2 million agricultural workers classified as wage-earners.

(b) Data on government and domestic employees was directly from the censuses of the respective countries except for Egypt where an estimate made by Doctor and Gallis "Size Characteristics of Wage Employment in Africa: Some Statistical Estimates" International Labor Review Vol. 93 #2 (February 1966) p. 170, was used.

SOURCES

Columns (1) - 3: International Labor Organization Yearbook of Labour Statistics 1966, 1971 and 1972. Geneva.

Column (4): (a) Data on employees in manufacturing by size of firm was from U.N. Statistical Office. The Growth of World Industry 1970 Edition: Vol. I: General Industrial Statistics New York: U.N. 1972, except for Venezuela which was from Venezuela..Direccion General de Estadistics y Censos. Anuario Estadistico 1971. Caracas, 1973.

(b) Data on government and domestic employees was directly from the censuses of the respective countries except for Egypt where an estimate made by Doctor and Gallis "Size Characteristics of Wage Employment in Africa: Some Statistical Estimates" International Labor Review Vol. 93 #2 (February 1966) p. 170, was used.

For the bulk of that large class of employees working in small, labor-intensive, and more mobile establishments, a majority of whom live in small towns or rural areas, pro-labor wage policies are not enforced. The illusion of enforcement is often created by minimum wage systems that discriminate closely by industry and region and that in practice essentially ratify market wages. Minimum wage systems, or other pro-labor laws that attempt significant departures from market wages can usually be enforced only in the modern sector. As may be seen from data provided in Table 1, attempts to redistribute via wage policies will, therefore, usually reach no more than 10 to 20 percent of the labor force. ³⁷ Furthermore, the redistributive potential of labor policies also depends on the size of the "surplus", or non-labor income share. Since surplus per worker is larger in urban and modern sector firms, capacity to pay is closely correlated with enforceability. Thus, the enforcement of wage increases in most rural or urban traditional sector firms would not only be costly in administrative terms, it would also have a smaller redistributive impact given the lower surplus per worker and the fact that many employers in those sectors are themselves poor.

(b). Links between implementation and market structure.

The link between enforceability and market structure has two components. The more obvious component was referred to above; it amounts largely to visibility and accessibility -- features inherent to modern sector firms because they tend to be large, to locate in cities or along major transport facilities, and (every cloud has its silver lining) to advertise blatantly.

The second link, however, is of a more general nature and is less obviously related to the modern-traditional sector dichotomy. Any policy attempt to distort a market outcome will create some degree of disequilibrium

or "tension". The amount of tension is determined by market conditions, and is itself a determinant of the degree of political and administrative effort required for implementation.

More specifically, the degree of market tension will be a function of the supply and demand elasticities in each labor market: the greater the elasticities, the larger will be the disequilibrium resulting from a given departure from a market wage, and, hence, the stronger the market forces working against government policy. Thus, if labor supply is highly elastic, any wage above the free-market level will generate a large number of job-seekers; and any wage below could be implemented only by somehow forcing a large number of potential job-leavers to remain at work. If the demand for labor is elastic, a wage above the free-market level will cause a large reduction in employment, and a greater disruption or readjustment in the structure of production.

Tension also results when government attempts to change the underlying supply and demand conditions of markets. A major part of wage policy, for instance, is directed at either increasing or reducing the competitiveness of labor supply, chiefly by measures that weaken or strengthen unions. The amount of effort required to implement such measures will depend on the structural characteristics that underlie market supply conditions, such as the skill homogeneity of the labor force, its regional concentration or dispersion, its education, and other social characteristics that affect both market knowledge and ease of organization.

As a general rule, the tension created by a given policy-distortion of wage levels is smaller in the modern than in the traditional sector. This is because the elasticity of demand for labor tends to be lower, and because

labor supply conditions are more easily affected in the modern sector; e.g., unionization is easier, and job stability laws are more easily enforced. These arguments imply that wage policy is more easily implemented in the modern sector for two kinds of reasons -- the greater visibility and accessibility of modern sector firms, and the lesser tension created by market distortions in that sector.

(c). The law of rising (modern sector) wages

One of the most frequently repeated empirical generalizations regarding developing countries is that modern sector real wages are rising more rapidly than (i) traditional sector incomes, and (ii) in most cases, than GDP per capita. This phenomenon flies in the face of the orthodox conception of the underdeveloped country as a labor surplus economy with relatively competitive labor markets. The contradiction is most often attributed to unionization and political power of modern sector labor.³⁹ An alternative and complementary explanation involves the skill requirements of modern sector activities and the consequent skill upgrading of the modern labor force.⁴⁰ The search for a theory of rising modern sector wages is relevant to wage policy first, because a "competitive market" explanation (e.g., rising human capital) implies the absence of distortion. If skills largely explain high wages in the modern sector, there is no need to lower wages for efficiency purposes, while the reverse implication follows from the "market distortion" explanation.

Second, such a theory would reflect on the feasibility of wage policy, particularly of a low-wage policy: the ease of policy corrections will depend on the nature of the "distortions" or market forces involved.

My preferred point of departure is the generalization that upward

wage pressures are created by features inherent to modern sector technology and market structure. This appears obvious with respect to the higher skill requirements of this sector. But it is also true of wage increases resulting from unionization and direct political power. The principal features of modern sectors are capital-intensity, large-scale units, urban presence, and rapid output growth. ^{41/}

The skill effect on wage levels is the combined result of the need for new skills plus a structural constraint on the supply of those skills. Because such skills are largely learned on-the-job, their supply tends to lag behind the creation of new job positions. This kind of scarcity, and the resulting wage pressure, will be very sensitive to (i) the rate of growth, since slow expansion will allow skill supply to grow through some job turnover and deliberate on-the-job training of extra men; and (ii) the degree of structural change in sectoral output, since the expansion of the same activity will create a pool of each new skill and reduce the monopoly power of individual workers; and (iii) the absolute size of the market, since a large market will also tend to create pools of workers with the required or closely related modern sector skills that diminish the bargaining edge of each individual. Skill premiums of this type could be reduced by institutional arrangements that forced or induced firms to generate a larger supply of on-the-job trainees.

Wage differentials may also result because the high fixed costs created by capital intensity put a premium on low worker turnover and on dependability. Capital-intensive firms therefore pay higher wages to reduce turnover, to be more discriminatory in their search for workers who rank high in personal characteristics associated with carefulness and dependability, and to elicit responsibility through good will. Such wage premiums, however,

will only generate a rising relative wage in the modern sector if employment in the more capital-intensive component is growing as a proportion of total modern sector employment.

Modern sectors are also conducive to wage gains through unionization and direct political pressure. The opportunity for such gains is created by the high productivity and inelastic demand for labor, both of which are due largely to capital intensity. Elasticity of labor demand varies directly with the share of labor in total cost.^{42/} Also, capital-intensity usually implies a large rent or quasi-rent component in the return to property, partly because large-scale capital assets tend to be long-lived, and partly because modern sector assets in LDCs are often complementary with natural resources. Quasi-rent also arises from the monopoly element that is present in much LDC manufacturing and other activities as a result of tariffs, licenses and other such privileges.^{43/}

Modern sector characteristics, at the same time, facilitate the exploitation of such opportunities by labor: unions in LDCs usually originate in, and are often limited to modern sector establishments. Such firms tend to hire more experienced and better-schooled workers, concentrate them geographically -- in a small number of establishments and in one, or few cities -- and provide them with an external environment of discipline and organization. Modern sector firms, in short, are natural breeding grounds for unions. This impact of modern, industrial forms of production on worker consciousness and organization was the basis of Marx's class analysis.^{44/} The same features of modern sector activity create direct political power: viz. urban presence, susceptibility to organization, and disruptive potential.

The processes underlying white-collar salary trends are somewhat different, on both supply and demand sides. As distinct from the largely market-determined supply of manual workers (which is either unskilled and highly elastic, or skilled and subject to supply-creation by the modern sector itself), the supply of white-collar labor is mostly a function of schooling, particularly secondary school output, and is, therefore, a direct result of policy. On the demand side, the market for white-collar employees is complicated by the existence of a massive single employer in the public sector -- whose wage policy cannot be separated from consideration of other policy goals, principally in the area of fiscal policy, and of the major political force represented by public employees. Changes on the supply side, however, are likely to cause a cycle in salary trends: secondary schooling output is almost universally growing faster than modern sector employment opportunities, and are likely, therefore, to slow the growth of white-collar salary levels.

One major policy implication of these varied forces tending to raise modern sector wages is that a low-wage policy probably requires much more than a neutral attitude to competing income groups; it would seem to require active suppression of the natural political power and ease of unionization of modern sector labor, as well as an aggressive training and educational policy aimed at enlarging supply of both on-the-job trainees and secondary school leavers. A second implication is that the capacity to pay criterion, which implicitly underlies the collective bargaining approach to wage policy, tends to sanction and reinforce the dualism and income differentials between modern and traditional sectors.

II. Policy Impact

1. Some issues

The following, is a not untypical evaluation of wage policy in developing countries: 'The reasons for the existence of wage levels, especially for unskilled labor, which are "too high" are mainly institutional. In some countries, and at certain periods, trade unions play some role. But the major factor is government policy, and the ideological or political ideas which guide it. Government is a major influence on wage levels and structure in most LDCs, by its wage decisions with respect to government employees, and in its role as regulator through minimum wage policies, wage boards, Industrial Courts, etc.^{45/} In my opinion, wage policy is more diverse in intent, more indirect in form, and more constrained in practice than is suggested by that evaluation.

It is both statistically and conceptually difficult to separate the contributions of policy, unions and market structure. Today's market structure, and union strength are both partly the product of yesterday's policies. In this broader sense, much more can be attributed to policy. But today's wage decisions and mediation in wage disputes only rarely push wages very far above, or below their market (including union) determined level. This suggests that a policy reversal will be a slow and complex process because it must, in turn, unwind the fabric of protective labor and business laws that are now part of the market environment in most LDCs, and that largely explains wages that are "too high."⁴⁶

Furthermore, though it is natural (or rather, professionally necessary) for an economist to treat policy as an exogenous variable, the resulting analytical procedure misses out the interrelation that exists

between policy choice and economic structure, and is consequently unable to assess either the political feasibility, or the mix of political and economic changes required to implement a different policy. Once a protected sector of labor and business groups exists, how feasible is a policy of wage restraint? And how feasible is a policy that not merely restrains wages, but carries out other policies required for employment creation such as the dismantling of many forms of capital subsidy in the modern sector, and the transfer of income out of the modern sector to create capital and employment in the traditional sector.^{47/}

2. Policy vs. market forces

The literature on LDC wage policies contains some attempts to assess the separate contribution of government intervention on wage levels, chiefly in the modern sector. Berg,^{48/} Turner and Jackson,^{49/} and Frank^{50/} for instance, have stressed the role of active or permissive government wage and unionization policies in explaining sharp wage increases in the modern sectors of various African countries. On the other hand, Ramos^{51/} and Isbister^{52/} argue that in Mexico and other Latin American countries, market forces are responsible for most of the recent trend in modern sector wages. Isbister explains wage increases in Mexico by growing traditional sector productivity; Ramos argues that rising skill levels explain wage trends in Latin America. Ridker^{53/} also suggests that high modern sector wage levels are to a large extent caused by market rather than policy forces.

The source of modern sector wage increases was also discussed by Tidrick^{54/} and Eriksson^{55/} who measured the effect of these wage increases on employment, in Jamaica and Latin America respectively. Both authors begin by assuming autonomous wage increases and then study the

wage effect on productivity and employment. Tidrick then argues that the reverse causation is possible but unlikely, given some features of his data. Eriksson is more agnostic, admitting that causation may run either way.

One attempt at a systematic measurement of the separate contribution of market and policy forces was made by Ramos, but his argument consists largely of providing detailed measures of labor quality, which, according to his figures, has been rising.^{56/} Though he considers this data sufficient to explain the observed wage increases, it does not rule out a parallel and significant contribution by government policy.

This issue was also dealt with, at some length, in a controversy following an article by Kilby,^{57/} who attributed wage increases in Nigeria to the political power of unions. Weeks, for example, argued that "wage levels in Nigeria have been basically determined by economic conditions, though superficially through political mechanisms."^{58/} Kilby's argument was supported by Warren^{59/} who stressed the political, rather than the direct collective bargaining power of unions, even though the resulting pro-labor policy was implemented through a "concessionary" attitude in wage negotiations. Knight makes a similar point regarding urban labor in Uganda.^{60/} This controversy suggests the awkwardness, and perhaps irrelevance of the original question ("market vs. policy?") since, like the scissors analogy for supply and demand, "the source" of the wage increase is clearly an interaction.

Some other aspects of this discussion concern effectiveness of policy in raising wages through (a) welfare and supplementary benefits legislation, (b) minimum wage laws, and, (c) wage leadership. Thus a common theme in discussions of wage policy is that legislation regarding

social security and supplementary benefits is a source of additional upward pressure on real wage levels.⁶¹ Such benefits often add as much as 50% or more to the wage bill. It is plausible, however, that part, if not all such benefits are eventually offset by smaller future increments in basic wages, though I have not found any study that examines this question.

The impact of minimum wages has been discussed more often in the context of the more backward African economies where unskilled and less organized workers make up a larger proportion of the wage-earning labor force, and consequently where minimum rates are both directly applicable to more workers, and are a powerful lever on the whole structure of rates. Several authors have cited minimum wages, (along with government pay-scales) as a main source of the substantial increases in modern sector wage levels in these countries.^{62/} The impact of minimum wages in the more developed and differentiated labor markets of Latin America is probably less pronounced and limited to a small number of workers on the fringe of the modern sector. According to Berg,^{63/} the minimum rate is the effective rate for about half the workers in some African countries. But, survey evidence for Peru,^{64/} for Mexico,^{65/} and the recent statement by the President of Colombia,^{66/} suggest that a large proportion of wage-earners in those countries receive less than the minimum, and most receive wages either above or below the minimum. On the other hand, Puerto Rico seems to have been a special case of considerable upward pressure on wages exerted through the minimum rates; wage policy thus dominated and overrode the potential contributions of either unions or rising skills.^{67/}

Existing labor force surveys for many countries could be used for a fuller study of the impact of minimum wages. A first set of questions would relate to coverage. What proportion of the labor force is in fact paid the minimum? How many, and who, fall below? What are the political, market, or administrative constraints that impede full coverage? A second set concerns the leverage effect of minimum rates, i.e., the extent to which increases in minimum rates also raise wages of higher-paid workers because wage differentials must be maintained for market reasons, or to satisfy union requirements. Presumably, leverage is proportional to the number of workers actually paid the minimum, which in turn is a function of the degree of skill differentiation, and of unionization.

The demonstration or pull effect of wage increases by "leading" sectors - chiefly the public sector or large foreign firms - on other modern sector wages has been cited^{68/} as a key wage increase mechanism, and one that presumably is particularly easy to reverse. As with minimum wages, the argument has been applied most particularly, and plausibly, to the smaller and less differentiated modern sectors of some African nations. If wage leadership is to explain rising real wages however, it must explain who loses from the wage increase; the additional wage income may come out of modern sector profits, or taxes, or the traditional sector through relative price changes. All these mechanisms are plausible but an adequate explanation of the leadership mechanism must explain the particular mechanism by which real income is transferred, and therefore, why the wage increases do not simply result in general inflation.

3. Wage and GDP per capita trends.

Table 2 compares long-run manufacturing wage and GDP trends for a sample of developing countries. This comparison is offered as a very crude, possible indicator of countries following high and low wage policies over a relatively long period. It is more indicative of the impact of basic institutional "behind the scenes" policies towards labor and market structures, than of the highly variable year-to-year fluctuations in wages caused chiefly by immediate political and stabilization goals.

There are a surprisingly large number of countries (half the sample!) where manufacturing wages have grown more slowly than GDP per capita. This does not, of course, imply income equalization, since the compensating faster growth in incomes may be accruing to capitalists, landlords or employees in the non-manufacturing sector, particularly in government.⁶⁹ It could be argued that the per capita GDP is not the appropriate standard for comparison; if what is sought is an undistorted labor market, the appropriate comparison would normally be with rural wages. Nevertheless, the comparison with GDP is in itself surprising in that modern sector wage trends are commonly thought to exceed the income trends of all, or at least most other groups in society, and therefore, by definition, of GDP.

Another feature of Table 2 is that many countries with rapid wage growth are nevertheless in the category of what could be called "low wage policy" countries. The converse also holds true. At the same time, there is some correlation between the trends in manufacturing wages and GDP with an obvious suggestion that over the long-run market forces (and thus "capacity to pay") are a powerful determinant of real wage gains.⁷⁰ Finally, the more detailed time-period data of Appendix Tables

Table 2. Trends in Manufacturing Wages and GDP Per Capita
(annual average changes in percentages)

	(1) <u>Real Wage</u> <u>(1956-1972)</u>	(2) <u>GDP per</u> <u>capita</u> <u>(1959-1971)</u>	(3) <u>Difference</u> <u>(1) - (2)</u>
Tanzania	9.4	2.2	7.0
Nicaragua	7.1	3.5	3.6
Zambia	6.5	3.1	3.4
Colombia	4.7	1.9	2.8
Dominican Republic	3.6	1.0	2.6
Chile	4.6	2.1	2.5
Jamaica	(5.6)	(3.1)	(2.5)
Peru	4.1	1.8	2.3
Ecuador	4.1	1.8	2.3
Venezuela	(2.7)	(0.6)	(2.1)
Ghana	1.4	-0.1	1.5
Ceylon	3.1	2.1	1.0
Panama	5.5	4.7	0.8
Egypt	(1.2)	(1.1)	(-0.1)
Mexico	3.8	3.9	-0.1
Turkey	(3.5)	(4.0)	(-0.5)
Brazil	2.3	3.1	-0.8
Pakistan	1.0	2.2	-1.2
Guatemala	1.8	2.1	-1.5
Burma	(0.4)	(2.0)	(-1.6)
Costa Rica	(0.5)	(2.2)	(-1.7)
Argentina	0.5	2.6	-2.1
Taiwan	3.2	5.7	-2.5
Korea	4.2	6.7	-2.5
India	-1.3	1.5	-2.8
Philippines	-1.4	1.6	(-3.0)
Thailand	(-2.6)	(5.3)	(-7.9)

- Notes: 1. Brackets indicate cases where data was available for short sub-periods only: the periods covered are given in notes to Table 2
2. The dates shown in column headings indicate maximum period covered: in some cases (see Table 2), the periods are shorter.
3. The maximum periods for Columns (1) and (2) do not match fully, but they overlap sufficiently to indicate the approximate relationship between manufacturing wages and GDP per capita.

Sources:

Column (1): From Table 1, Appendix

Column (2): OECD, Latest Information on National Accounts, No. 7 February, 1973.

1-3 reveal a considerable diversity of wage trends, including several cases of prolonged periods of falling real wages, even after short-period (four-year) variations are removed. This diversity conflicts with the commonly held impression that manufacturing wages are rising in a more uniform manner, and generally exceeding GDP growth.^{71/}

The following sections will briefly examine wage policies in the "high" and "low" wage trend categories as suggested by the country ranking of Table 2, to test the hypothesis that countries where growth in GDP per capita exceeded that in wages were indeed following low wage policies, and vice-versa.

4. Cases of "low-wage trends"

It is not surprising that most of the countries in the "low-wage trend" category (GDP growth exceeds wage increase) such as South Korea, Thailand, Taiwan, Guatemala, Pakistan, and Brazil (since 1964), had long periods of authoritarian and anti-union policies.

In other respects there is a diversity of policies and market structures. Brazil and the South Korea-Taiwan duo for instance, are opposite paradigms: Brazil of dualistic growth, where capital subsidy and sectoral allocation policies reduce the potential employment and distributive effects of rapid growth, Taiwan and South Korea of balanced urban-rural, evenly distributed growth.^{72/} Indeed, in Taiwan and South Korea the task of wage repression must have been facilitated by a lesser degree of dualism: output is much less concentrated in a few, large, urban, high productivity firms. The government's repression policies were thus faced with weaker market and organizational forces favoring wage increases. Much of this, of course, is circular: lesser dualism is to some extent

(some say, primarily) a result of wage repression.

Wage repression in other countries, even when applied over relatively long periods, has been paralleled by capital-pricing, licensing and other policies that both subsidised capitalists, particularly in manufacturing, and contributed to more dualistic growth patterns. This policy mix has been most evident in Brazil,^{73/} but it also characterized the Philippines, as is argued in the recent ILO employment mission, as well as Pakistan during the decade of the sixties. In Guatemala and Thailand, wage-repression seems to have been the complement primarily of landlords - rather than urban capitalist-favoring policies, though tariff and capital-subsidy policies have also been favorable to the urban wealthy.

Other countries would seem to be in the group for very different reasons however: India in particular is a major political exception. The strongly egalitarian intent of the Indian Constitution certainly provides a basis for a tight rein on manufacturing wages, yet there is much in the institutions and principles of wage-determination in India that would lead one to expect wage trends strongly guided by capacity to pay, particularly the acceptance of collective bargaining or tripartism, the rejection of direct government intervention, and the approval of industry-cum-regional differentiation in minimum wage rates. Moreover, India is supposedly a "soft state," and has relatively strong regional governments which participate in wage-determination. Despite these characteristics, which preserve more democratic appearances, the wage-determination machinery in fact has managed to establish principles of strong central control, of wage restraint and egalitarian wage criteria.^{74/} Along with general wage restraint, there has been a sharp reduction in skill differentials. Some

of the instruments that have achieved these results, for instance, are the centralization of the Labor Appellate Tribunals, the establishment of the industry-region, rather than individual firm, as the basis for determining the ceiling capacity to pay, and the involvement of independents in the Wage Boards, persons who generally lean conservatively towards consumers' and community interests.^{75/}

Argentina appears to have switched from being a classic case of redistributive pro-labor policies, under Peron, into the category of low-wage countries. Though the overall trend from 1954 to 1972 is a lag in manufacturing wages behind GDP per capita (0.5% vs. 2.6%), the story of wage policy over this period is complicated by numerous regime changes, by an overriding concern with stabilization problems, and by the powerful effect of external terms of trade on the internal distribution of income between urban wage-earners and farmers. The principal tools used to affect wage-outcomes involved direct price-setting on a highly aggregate scale -- broad wage readjustments, exchange rate policy, and the rate of inflation; few changes were made in labor legislation, and the solid organization of labor unions went unchallenged. The net effect of these broad and continually shifting policy interventions was an initial and sharp post-Peron reduction in the wage share in national income from 46% in 1954 to 38% in 1959, followed by a burst of rapid growth, as real wages grew 8.4% p.a. from 1959 to 1965 while GDP per capita grew only 2.4%. The 1965 military coup then initiated a long stagnation and even slight decline as real wages fell 0.6% p.a. between 1964 and 1972 despite an annual growth of . . . % in GDP per capital. The overall picture shows some correlation between wage trends and basic regime attitudes, but the extreme annual fluctuations of key variables, the major impact of external price

developments - chiefly of wheat and beef - and the relative weakness of all governments during this period suggest that any conclusion regarding policy impact is somewhat speculative.

The difficulty of pinning down the impact of policy on wages can be further illustrated by the case of Brazil where there is strong prima facie evidence of wage repression: ever since 1968 for instance, wages have lagged well behind GDP per capita (% vs. % p.a.), and government has been strongly suppressive of reformist ideologies and organizations. Most observers are categorical in describing policy as wage-repressive.^{76/} At the same time, however, it is argued that wage-repression was greatly facilitated by the corporatist history of the Brazilian labor movement. Control through corporatist arrangements over a long period of time suggests that the suppression of labor may have been less strong with regard to incomes than to class organization, and in fact, real wages have been growing rapidly since 1968. The rigor of wage-suppression between 1964-1968 was probably motivated in part by the large 1963-1964 increases dictated by Goulart, and by the priority of anti-inflationary policy over that period. The strong upward trend in wages since 1968 could be explained as a market response to very fast output growth, and/or as an easing of wage restraint in the interest of maintaining corporatist methods of labor control, particularly in the context of a highly dualistic economy and well-developed union structure where outright class suppression would face strong opposition. These possible explanations make it difficult to be categorical regarding the degree or order of magnitude of the impact of wage policy in Brazil, despite its stereotype as a wage-suppressive government.

5. Cases of "high wage trends"

As was expected from the analysis of earlier sections, countries with high rates of wage increase relative to GDP tend to be less authoritarian and to have relatively dualistic economies. These are the political and economic conditions that, on the one hand, motivate collective bargaining, and "capacity to pay" -type wage policies, /on the other, provide the market structures where such policies can be used to good effect. More generalizations prove difficult.

If manufacturing wage-earners gained from policy in these countries, who lost? In countries with small modern sectors (e.g., Tanzania, Nicaragua, and Zambia), there was more leverage to finance wage increases by redistributing income from the traditional sector, via relative prices, or agricultural export taxes for instance. Yet in many of the high-wage trend countries, such as Colombia, Peru, and Chile, the traditional sectors were too small (e.g., under one-third of value added) to support, via such transfers, the large wage increases in the modern sector. Instead, wage gains must have been financed largely from capital income, or foregone taxes; where wage gains resulted chiefly from capacity-to-pay policies, there would have been little perception of "loss" - the wage gains would have appeared as a natural sharing in productivity increases.

Of the high-wage trend countries shown in Table 2 - those for instance where real wage growth exceeded GDP per capita growth by over 2.0% p.a. - only Tanzania could be described as a case of deliberately redistributive pro-modern sector wage policy. High wage trends in the other countries seem to be associated instead with consensus-type wage policies.

It is easy to find in the history of these countries, periods of rapid and others of slow wage change, often as a result of fluctuating inflation rates and stabilization programs. The capacity to pay orientation lends itself to greater flexibility of this type. Also, shifts in the political balance of power cause fluctuations around the basic permissive trend made possible by governments too weak to suppress unions, and by dualistic productivity differentials that are to some extent self-reinforcing rising wage costs induce greater capital intensity. In Peru, for instance, wage policy became markedly permissive - favoring the stronger organized sectors, such as miners - during the first two or three years following the 1968 military coup; the result was a marked acceleration in the growth of real wages. These increases were achieved directly through the government's participation in tripartite wage boards. At the same time, the government began a continuing effort to weaken union organization. These policies contrasted with the labor policies of the Belaunde government (1963-1968). Belaunde's policies also involved a pro-labor influence in mediating disputes and enforcing labor legislation, but this influence was less pronounced than in the early years of the Velasco government; instead, Belaunde followed a mix of consensus and pro-labor organizational policies that permitted both steady differential wage increases in modern firms, and greatly expanded the extent of unionization, chiefly in modern agriculture.

A more dramatic case of deliberately redistributive wage policy was Chile's attempt at massive redistribution to labor under the Allende regime, particularly during 1971 when an exceptionally powerful attempt was made to raise wage levels and wage shares. The policy involved sharp increases in minimum wages, price controls, and easy access to credit to

smaller and medium firms financially affected by the cost-price squeeze. Furthermore, acquiescence to wage increases was facilitated by the legally sanctioned threat of government "intervention" (i.e., take-over) in firms that failed to resolve labor disputes. The combined effect of these measures was a massive transfer of modern sector property income to labor during 1971: real wages that year rose 26%! The financial and productive implications of these measures, however, were untenable, and much of the redistribution was reversed, in part as deliberate policy, through the inflation of 1972-1973. This rather erratic instance of an extreme pro-labor policy, like the longer-lived Peron experiment, is revealing of the mechanisms involved in implementation of the market response to such policies, and of the ultimate difficulty of achieving a permanent redistribution through such means.

An important feature of both the more aggressively pro-labor and the consensus wage policies is the way in which labor policy has accommodated to the existence of large differences in productivity levels, along with differences in political vulnerability, chiefly between foreign-owned and national firms. Government policy has accommodated to this differentiation by allowing company unions/^{to} become the principal negotiating units: industry-wide bargaining is the exception in most LDCs. The history and role of company unions in Colombia is stressed, for instance, by Urrutia.^{77/} Gregory^{78/} cites the role of plant unions in Chile; he argues that such unions weakened the labor movement, but this broad political result is not inconsistent with the achievement of differential wage gains correlated with productivity levels and changes between firms. Bargaining by company unions results in price discrimination by labor in the sense that firms with less elastic demand for labor curves can be forced to pay

higher wages.

Price discrimination by labor helps to explain the wide dispersion of wage rates even within LDC modern sectors, i.e., over and above the differentials between modern and traditional sector firms. Since productivity is closely correlated with capital-intensity, there is a correspondingly close relationship between wage levels and capital-labor ratios in firms. Gregory cites this correlation for Chile and evidence for Peru and Colombia is given by Webb^{79/} and Nelson, Schultz and Slighton^{80/} respectively. A striking example of wage variance closely parallel to productivity differences, and explainable largely in terms of price discrimination, is provided by eight large sugar estates in Peru. Data for 1968 show a similar structure of wages within each estate (reflecting differences in average productivity). Thus the average annual wage ranged from U.S. \$713 to \$1,643.^{81/}

A corollary of large productivity differentials is that unless government wage pressures are highly discriminatory, (rather than equal, absolute increases for all firms) they are likely to be unsustainable, because marginal, high-cost firms will be exceptionally hard hit, and many forced out. In practice, general wage increases involve equal percentage not absolute increases.

V. Conclusions

The "high-wage policy" that allegedly characterizes LDCs, and that is routinely attacked in discussions of employment and equity, is a crude misrepresentation of wage policy in LDCs.. Cases of straightforward redistributive pro-labor policies, such as the post-Independence experience of several African countries, and the Peron period in Argentina, have been

the exception. Wage-restraint and industrial consensus policies are more common features of LDC attitudes towards modern sector labor. Why then the common perception that governments favor modern sector wage increases? And why are such wage increases in fact so common?

The contrast between my description of policy intent - as being ; primarily repressive or neutral - and observed wage behavior is caused by an interaction of economic structures and political aims that favor modern sector labor. These natural advantages of modern sector labor must either be actively checked, through repression or moral alternatives, or accommodated through consensus politics.

Perhaps the most frequent policy outcome is one which favors discriminatory wage increases that match differences in productivity growth. The "capacity to pay" criterion is a hardy plant, fed by political convenience, by the marketplace ideology, by notions of fairness, and by the economic opportunities of dualistic economics. This is a pessimistic conclusion with respect to the prospects of more equitable and employment-creating wage policies. The argument of this paper implies that calling for wage restraint is preaching to the converted, at least in most LDCs, and that modern sector wage restraint is an option open only to authoritarian governments. Finally, wage restraint does not guarantee favorable distributive effects. Authoritarian governments, particularly when dominated by urban business groups, and in economies that are already highly dualistic, may easily offset the potential employment-creation from lower wages through unfavorable capital subsidy and output mix policies. Recommendations regarding wage policy should therefore be fully aware of the different sets of economic policies that are normally associated with different political and market structures since consideration of both the

feasibility and the desirability of a different wage policy for better income distribution will be a matter of comparing different sets of inter-related political and market settings.

FOOTNOTES

1. From "150 Years Ago", a column in The Observer, a London newspaper, cited in the edition of May 17, 1969.
2. Cited by James O. Morris, in "Latin American Collective Bargaining Agreement: An Illustration" in Workers and Managers in Latin America, Stanley M. Davis and Louis Wolf Goodman, (D.C. Heath & Co. 1972) p. 211.
3. See Albert Fishlow "Brazilian Size Distribution of Income" AER, LXII, No. 2 (May 1972) Table 1, p. 392.
4. Emanuel de Kadt, Catholic Radicals in Brazil (London: Oxford University Press, 1970) p. 177. Data refer to 1965.
5. Ibid., p. 177.
6. Ibid., p. 185.
7. Stephan R. Lewis, Jr., Notes on Industrialization and Income Distribution in Pakistan, Research Memorandum No. 37, Center for Development Economics, Williams College, September 1970, p. 15.
8. In this special sense, socialist and other leftist regimes could be described as pro-capital; in fact, socialist governments generally are pro-capital. This classification is modified below to acknowledge the distinction between policies aimed at raising wages in either the modern or the traditional sectors.
9. I define "modern" and "traditional" as high and low labor productivity, and perhaps would have used the latter terms to avoid confusion but the former concepts are more generalized and roughly mean the same. High labor productivity correlates well with size of firm (excluding farms), with the "organized" sector, with what could be called the "formal" sector, and with the "enumerated" sector. For distributive analysis, however, the most useful criterion is productivity since it identifies where income originates and where it goes. Enumeration and size of firm, however, are useful statistical approximations or proxies for the high productivity sector.
10. The growth and employment case for low modern sector wages is put forward in the paper by Henry Bruton, Industrialization Policy and Income Distribution in this volume, especially pp. 41-51. See also Gustav Ranis, "Industrial Sector Labor Absorption" EDCC Vol. 21, No. 3 (April 1973) pp. 387-408.
11. cf. Bruton op. cit. "The general outcome of [on the job skill accumulation plus job mobility] is quite likely to be some increase in wage rates due to accumulated experience. It is difficult to be alarmed about these increases. They do not penalize employment and they do not result from exercise of any monopoly or discriminatory power," p. 50.

12. The widening of the wage and salary structure in Brazil over the last decade for instance has been explained as a necessary consequence of rapid growth. (See Carlos G. Langoni, "Distribuc o da renda e des envolvimiento economico do Brazil," Estudios Economicos, Vol. 2, No. 5 (Oct. 1972) pp. 1-88). Also, the rapid increase in white collar incomes in Africa immediately after Independence has been attributed to the greatly expanded personnel demands of the public sector.
13. This argument is developed in R. Webb, Government Policy and the Distribution of Income in Peru, 1963-1973. Discussion Paper No. 39, RPED, Princeton University, March, 1974, pp. 28-29.
14. See E.A. Landy, in International Labor Review Vol. 101, No. 6 (June 1970) p. 555; and James O. Morris, who equates a "more advanced" industrial relations process with one that places greater reliance on collective bargaining (op. cit., p. 209).
15. These include AID and AFL-CIO supported labor institutes in each of the three major world regions, (the AIFLD (The American Institute for Free Labor Development) is for Latin America), devoted largely to the support of non-communist labor organizations in developing countries.
16. D. Jackson op. cit., for instance, discusses the substantial budgetary support and training assistance provided to the anti-communist Turkish labor federation Turk-Is.
17. D. Jackson "The Political Economy of Collective Bargaining -- The Case of Turkey" British Journal of Industrial Relations, Vol. IX, No. 1 (March 1971) p. 69. Ataturk's labor policy, embodied in the Labor Act of 1936, was reversed after the 1960 Revolution.
18. See Roger D. Hansen, The Politics of Mexican Development (Baltimore: The John Hopkins Press, 1971), especially pp. 113-116. The main exception was the Aleman administration (1946-1952) which followed a deliberate low-wage policy.
19. Ibid., p. 92. This policy was made explicit by President Cardenas (1934-1940). See Joe C. Ashby, Organized Labor and the Mexican Revolution under Lazaro Cardenas (Chapel Hill: University of North Carolina Press, 1963).
20. See President Velasco's Message to the Nation of July 28, 1971.
21. Arthur Lewis, "A. Review of Economic Development" AER, Vol. LV, No. 2 (May 1965), p. 15.
22. See Celso Furtado, Subdesenvolvimiento e Estagnacao Na America Latina (Rio de Janeiro: Editora Saga, 1968) p. 81. Furtado's argument, culled from several publications, is favorably reviewed by Werner Baer, "Furtado on Development: A Review Essay," Journal of Developing Areas (Jan. 1969) pp. 270-280. This argument also underlies several

empirical studies undertaken as part of the Rice University Program of Development Studies project on income distribution. See James Land and Ronald Soligo, Models of Development Incorporating Distribution Aspects, Paper No. 22, Program of Development Studies, Rice University. See also the ILO Report on Colombia, Towards Full Employment, (Geneva 1970).

23. See, for instance, Plan Anual 1971, ODEPLAN (Santiago, 1970) p. 17 "La concepcion general del Plan ... se expresa en lo inmediato en una fuerte redistribucion de ingresos a favor de los asalariados ... Esta redistribucion de ingreso se traducira en un sustancial aumento de la demanda y, por ende, en un fuerte estimulo al aparato productivo, hasta ahora muy deprimido y subutilizado. Por este mismo hecho, se cuenta con la necesaria capacidad de respuesta a las nuevas condiciones, asi como tambien existe un vasto contingente de fuerza de trabajo susceptible de ser empleados productivamente."

This expression of faith in the short-run elasticity of aggregate supply is supported by a broader argument that inequality is a growth bottleneck, expounded for instance in Pedro Vuskovic, "Distribucion del Ingreso y opciones de desarrollo," Cuadernos de la Realidad Nacional No. 5 (Sept. 1970) pp. 41-60. Vuskovic was Allende's first Minister of Economy (1970 to mid 1972) and is considered the chief architect of Allende's economic policy.

24. D. Pursell, "Bantu Real Wages and Employment Opportunities" South African Journal of Economics (June 1968) pp. 87-103.
Arnt Spandau later questioned Pursell's interpretation of Bantu wage policy, but did not deny, nor provide alternative explanations of, the wage increases cited by Pursell. A. Spandau, "South African Wage Board Policy: An Alternative Interpretation," South African Journal of Economics, Vol. 40, No. 4. (Dec.1972) pp. 377-387.
25. Cf. the Indian Constitution cited in C.K. Johri Issues in Indian Labour Policy Shri Ram Centre for Industrial Relations (New Delhi: New India Press, 1969) p. 42. Article 43 of the Directive Principles of the Constitution requires the state to secure a "living" wage to workers [my italics].
26. Ibid., p. 15.
27. It can be argued, for instance, that Brazilian style growth, combining low wages with capital-cheapening policies is not the best distributive alternative. The ILO argues that this has been the case in the Philippines.
28. "The desire for legal perfection which is so strong in Latin America sometimes leads to a situation where the law is in advance of the real economic and social situation..." International Labor Review, Oct. 1961 pp. 269-291.
29. Ibid., Oct. 1961, pp. 269-291.

30. Kenneth P. Erickson, Patrick Peppe, Hobart Spalding, "Research on the Urban Working Class and Organized Labor in Argentina, Brazil and Chile: What is Left to be Done?" Latin American Research Review, Vol. IX, No. 2 (Summer 1974) p. 127.
31. Miguel Urrutia, The Development of the Colombian Labor Movement (New Haven: Yale University Press, 1969) pp. 118-119.
32. Ricardo Ffrench-Davis, Políticas Económicas en Chile (Santiago: Ediciones Nueva Universidad, Universidad Católico de Chile, 1973). p. 345.
33. In Peru, for instance, the minimum size firm for creation of a plant union, in 1970, was 20 employees.
34. Alan Angell, Politics and the Labor Movement in Chile. (London: Oxford University Press, 1972) p. 80.
35. The Indian Fourth National Seminar on Industrial Relations in a Developing Economy, when grappling with the problem of minimum wage fixing for the unorganized sector recorded a unanimous objection to use of the capacity to pay criterion, "Industries that could not afford to pay the minimum wages had no right to exist." (Johri op. cit. p. 44). At the same time, though, the Seminar endorsed discrimination on a broader scale, by favoring differential rates on an industry-cum-region basis. Also, the differential enforcement within the traditional sector of Factories Act provisions was accepted as inevitable: some argued for more uniform implementation while others for separate legislation. (Johri op. cit., p. 16).
36. Reported in Latin America, a weekly newsletter published in London, Vol. VIII, No. 35, Aug. 1974.
37. See papers by H. Bruton, and C. Frank and R. Webb in this volume.
38. From the sample of twelve countries for which estimates were made of the size of the modern sector labor force, a rule of thumb can be formulated that modern sector employees will equal about half of total non-farm employees. For all but one of the countries (Egypt) the proportion was between 43 and 59 per cent.
39. Thus, some discussions of wage differentials in urban markets distinguish principally between the "organized" and "unorganized" sectors, thereby defining the wage differentials in terms of degree of unionization.
40. This view, stressing the role of skills, is argued by J. Ramos in Labor and Development in Latin America (New York: Columbia University Press, 1970), see especially pp. 174-178.

41. A similar model of interaction of economic and political determinants of modern sector wage gains is suggested by H.A. Turner and D.A.S. Jackson: "In the model that best fits the data of this study, the major immediate determinant is institutional behavior -- the behavior of employing and workers' organizations, and to some degree that of governments. On the other hand, the model is conditioned by certain characteristics of the economic system, and particularly by different rates of productivity growth between the economy's branches -- which appear both as a factor facilitating wage inflation and as indicating a certain restraint upon it. So that here, economic and noneconomic factors interact, rather than oppose each other," in "On the Determination of the General Wage Level -- A World Analysis; or Unlimited Labour Forever" E.J., December 1970, p. 846, Vol. 80, No. 320.
42. When wages rise, the demand for labor falls partly because capital and other factors are substituted for labor, and partly because costs rise and output falls. The negative output effect however is proportionate to the share of labor in total cost.
43. Cf. R. Slighton, in "Perspective on Economic Policy-making," in Luigi Einaudi (editor), Latin America in the 1970's, Rand R-1067-DOS December 1972, pp. 121-122. "Monopoly or partial monopoly positions in production arising from tariff protection and import controls create opportunities for labor to exact monopoly rents, and unions have not been backward in exploiting this opportunity."
44. "...with all the miseries it imposes upon (the workers), the present system simultaneously engenders the material conditions and the social forms necessary for an economical reconstruction of society," from Karl Marx, Value, Price and Profit, in Karl Marx and Frederick Engel, Vol. I (Moscow: Foreign Publishing House, 1962), p. 446.
45. Elliott Berg, "Wages, Policy and Employment in Less Developed Countries," Paper presented to Conference on Prospects for Employment Opportunities in the Nineteen Seventies, University of Cambridge, 1970, p. 5.
46. Berg, op. cit., defines "too high" as (a) higher than the wage needed to recruit new workers, (b) higher than the general level of incomes in the economy, and (c) higher than the marginal social opportunity cost of labor.
47. The special problems with each "horizontal" or inter-sectoral transfers are discussed in Webb, op. cit., pp. 25-29.
48. Berg, op. cit., p. 5.
49. H. A. Turner and D. A. S. Jackson, "On the Determination of the General Wage Level - A World Analysis; or "Unlimited Labor Forever," EJ December 1970, pp. 827-49.

50. Charles Frank, Jr., Urban Unemployment and Economic Growth in Africa, Paper No. 120, Yale Economic Growth Center, New Haven, 1968, pp. 262-65.
51. Joseph Ramos, Labor and Development in Latin America (New York: Columbia University Press, 1970).
52. John Isbister, "Urban Wages and Employment in a Developing Economy: The Case of Mexico," EDCC October 1971, pp. 24-46.
53. Ronald Ridker and Harold Lahel, Employment and Unemployment Problems of the Near East and South East (Delhi, Bombay: Vikas Publications, 1971).
54. Gene Tidrick, Wage Spillover and Unemployment in a Wage Gap Economy: The Jamaican Case, Research Memo 47, Williams College, 1972.
55. John Eriksson, Wage Change and Employment Growth in Latin American Industry, Research Memo 36, Williams College, June 1970.
56. op. cit.
57. Peter Kilby, "Industrial Relations and Wage Determination: Failure of the Anglo-Saxon Model," JDA I (July 1967), pp. 489-520.
58. John F. Weeks, "Further Comment on the Kilby/Weeks Debate: An Empirical Rejoinder," JDA Vol. 5, No. 2, (January 1971), pp. 165-174,
59. W. M. Warren, "Urban Real Wages and the Nigerian Trade Union Movement, 1939-1960," EDCC Vol. 1, No. 1, (October 1966), pp. 21-36.
60. J. B. Knight, "The Determination of Wages and Salaries in Uganda," Bulletin of Oxford Institute of Economics and Statistics, Vol. 19, (October 1967), p. 250.
61. Efren Cordova, "Labor Legislation and Latin American Development: A Preliminary Review," International Labor Review, Vol. 106, No. 5, (November 1972).
62. o.g., E. Berg "Wage Structures in Less-Developed Countries" in A.D. Smith (ed.) Wage Policy Issues in Economic Development (London: MacMillan, 1969): and C. Frank op. cit.
63. Berg, op. cit.
64. Unpublished tabulations of 1969 national sample survey.
65. Strassman, op. cit.
66. Recent press statement by President Lopez reported to me verbally.

67. Lloyd Reynolds, "Wages and Employment in a Labor-Surplus Economy" AER, Vol. LV, (March 1965).
68. Berg, op. cit. p. 6; Knight, op. cit.
69. A distributive trend table, accounting for the gains or losses of different social groups, would be an extremely useful research tool for the analysis of wage and other distributive policies.
70. This suggests another indicator of high or low-wage policies: the sign of the deviation from a regression line drawn between wage and GDP trends; and unless total modern sector wages can be obtained, the relationship could be drawn with industrial value added.
71. Data presented by H.A. Turner and D.A.S. Jackson, for instance, (in "On the Determination of the General Wage Level -- A World Analysis; or 'Unlimited Labor Forever,'" E.J., December 1970 pp. 827-849) strongly suggest such uniformity. This implication was criticized by J.B. Knight and Robert Mabro in "On the Determination ...: A Comment" E.J. Vol. 82 No. 326, (June 1972) pp. 677-686.
72. Though economists are beginning to question the degree of balanced growth in both S. Korea and Taiwan.
73. Cf. "...policy as practiced became one of maximum wage containment" Albert Fishlow "Some Reflections on Post - 1964 Brazilian Economic Policy" in H. Jon Rosenbaum and William G. Tyler (eds.), Contemporary Brazil: Issues in Economic & Political Development, (New York: Praeger, 1972) p. 86.
74. See D. Jackson "Wage Policy and Industrial Relations in India" E.J. Vol. 82 No. 325, (March 1972) pp. 183-194; and Myron Weiner, The Politics of Scarcity: Public Pressure and Political Response in India (U. of Chicago, 1962).
75. B.N. Datar and S. Mongia, "Industrial Awards in India" Indian Economic Review, 1954, p. 65.
76. Lorenzo Juan Sigaut, Acerca de la Distribucion y Niveles de Ingreso en la Argentina (Buenos Aires, 1972).
77. M. Urrutia, op. cit.
78. Peter Gregory, Industrial Wages in Chile.
79. Webb, op. cit.
80. Richard Nelson, T.P. Schultz, R. Slighton, Structural Change in a Developing Economy (Princeton: Princeton University Press, 1971).
81. Santiago Roca La Distribucion del Ingreso en las Cooperativas Azucareras del Peru, 1968-1972 (Lima: ESAN, 1973).

Table 1. Trends in Real Wages, 1956-72
(average annual changes in percentage)

	(1) 1956- 1960	(2) 1960- 1964	(3) 1964- 1968	(4) 1968- 1972
Argentina	-2.5	5.5	-1.2	-0.1
Brazil	0.3	2.5	0.5	7.6
Chile	-	1.6	2.2	5.5
Colombia	9.9	4.9	1.9	-0.4
Dominican Republic	4.4	13.5	-6.4	3.3
Ecuador	0.0	1.7	2.0	6.7
Egypt	0.3	5.4	0.6	0.0
Ghana	5.1	-1.7	2.0	0.7
Guatemala	2.6	1.2	3.2	-0.1
India	-0.9	-2.6	-0.4	0.8
Korea	4.4	-3.7	10.1	6.6
Mexico	2.4	8.6	2.3	1.6
Nicaragua	2.4	3.1	9.7	-
Pakistan	-0.9	5.3	-3.7	4.9
Panama	9.0	6.0	2.9	5.6
Peru	2.0	0.7	-1.9	5.5
Philippines	0.5	-4.5	0.3	-1.7
Puerto Rico	6.6	4.0	3.7	3.1
El Salvador	5.6	0.2	2.0	1.5
Sri Lanka	9.9	-0.8	1.4	1.4
Syria	-	-	-0.9	-0.8
Tanzania	6.8	18.2	4.9	4.0
Thailand	-	-	-3.9	-0.3
Turkey	1.6	1.6	5.7	2.5
Venezuela	-	-	3.7	1.8
Zambia	3.1	13.5	3.1	6.2

Sources: 1) 1956-64: Smith, Anthony D., ed., Wage Policy Issues in Economic Development (London: Macmillan, 1969), Table 2, p. 47, and International Labor Organization, Yearbook of Labor Statistics, (1966 ed.).

2) 1964-72: I.L.O., Yearbook of Labor Statistics (1973 ed.).

Table 1. (continued)

Notes: Actual period covered are as follows:

- Col. (1): Ecuador 1957-60
Peru 1957-60
El Salvador 1956-59
- Col. (2): El Salvador 1961-64
- Col. (3): Brazil 1966-68
Korea 1965-68
Nicaragua 1964-67
Tanzania 1965-68
Turkey 1964-67
- Col. (4): Brazil 1968-70
Colombia 1968-70
Dominican Republic 1968-70
Egypt 1968-70
Ghana 1968-71
India 1968-70
Korea 1969-72
Pakistan 1968-70
Panama 1968-71
Philippines 1968-71
Tanzania 1968-70
Thailand 1968-70

Table 2. Trends in Real GDP Per Capita 1956-72
(average annual changes in percentages)

	(1) 1956- 1960	(2) 1960- 1964	(3) 1964- 1968	(4) 1968- 1972
Argentina	1.6	1.7	2.7	3.7
Brazil	3.3	2.1	2.6	6.1
Chile	0.3	2.3	1.9	2.9
Colombia	0.1	1.8	1.4	3.0
Dominican Republic	0.8	3.7	-2.2	7.4
Ecuador	1.6	1.2	-	-
Egypt	-	-	-0.2	3.9
Ghana	-	0.1	-1.5	1.6
Guatemala	1.2	2.4	2.5	2.8
India	1.7	2.5	-0.5	3.3
Korea	2.3	3.6	6.8	8.9
Mexico	2.3	3.8	3.3	3.6
Nicaragua	0.0	7.3	1.1	1.3
Pakistan	0.7	1.5	1.9	-1.5
Panama	-	4.7	5.0	4.8
Peru	3.8	1.6	0.9	2.2
Philippines	0.5	1.3	1.0	2.8
Puerto Rico	6.4	6.2	5.6	5.0
El Salvador	-	3.3	1.6	-0.3
Sri Lanka	2.0	-0.5	2.6	2.9
Syria	-5.0	7.0	-0.9	6.0
Tanzania	-	1.2	3.5	1.7
Thailand	4.7	7.2	9.0	5.9
Turkey	0.2	1.9	3.7	3.8
Venezuela	-	4.1	0.9	1.3
Zambia	-	0.4	7.3	1.3

Sources: 1) 1956-60; U.N., Statistical Yearbook, 1966 edition, pp. 546-549.
2) 1960-72; Ibid., 1973 edition, pp. 549-552.

Table 2. (continued)

Notes: Actual period covered are as follows:

Col. (4): Argentina 1968-71
Brazil 1968-70
Chile 1968-71
Dominican Republic 1968-71
Egypt 1968-70
Ghana 1968-70
India 1968-70
Pakistan 1969-71 - excluding Bangladesh
Panama 1968-71
Philippines 1968-70
El Salvador 1968-71
Sri Lanka 1968-71
Zambia 1968-70

Table 3. Difference in Trends in Manufacturing Wages & GDP Per Capita
(average annual changes in percentages)

(Table 1 - Table 2)

	(1) 1956- 1960	(2) 1960- 1964	(3) 1964- 1968	(4) 1968- 1972
Argentina	-4.1	3.8	-3.9	-3.8
Brazil	-3.0	0.4	-2.1	1.5
Chile	-	-0.7	7.3	2.6
Colombia	9.8	3.1	0.5	-3.4
Dominican Republic	3.6	9.8	-4.2	-4.1
Ecuador	-1.6	0.5	-	-
Egypt	-	-	0.8	-3.9
Ghana	-	-1.8	3.5	-0.9
Guatemala	1.4	-1.2	0.7	-2.9
India	-2.6	-5.1	0.1	-2.5
Korea	2.1	-7.3	3.3	-2.3
Mexico	0.1	4.8	-1.0	-2.0
Nicaragua	2.4	-4.2	8.6	-
Pakistan	-1.6	3.8	-5.6	6.4
Panama	-	1.3	-2.1	0.8
Peru	-0.9	-0.9	-2.8	3.3
Philippines	0.0	-5.8	-0.7	-4.5
Puerto Rico	0.2	-2.2	-1.9	-1.9
El Salvador	-	-3.1	1.3	1.8
Sri Lanka	7.9	-0.3	-1.2	-1.5
Syria	-	-	0.0	-6.8
Tanzania	-	17.0	1.4	2.3
Thailand	-	-	-12.9	-6.2
Turkey	1.4	-0.3	2.0	-1.3
Venezuela	-	-	2.8	0.5
Zambia	-	13.1	-4.2	4.9

Source: Table 1 and Table 2

Notes: ¹The dates shown in column headings indicate maximum period covered: in some cases (see notes Tables 1 & 2), the periods are shorter.

²The maximum periods from Tables 1 & 2 do not match fully, but they overlap sufficiently to indicate the approximate relationship between manufacturing wages and GDP per capita.