THE IMPACT OF EXTERNAL ADJUSTMENT ON LABOUR MARKETS AND INCOME DISTRIBUTION: CANADA AND THE U.S.¹

by

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Analyzing the impact of structural adjustment on the labor markets and income distribution of Canada and the United States is informative because of both the similarities and differences in their labor markets. The similarities suggest that the experiences of both should be illustrative of how advanced industrialized countries respond to structural adjustment; the differences highlight how the labor market impacts may differ depending upon different policies with respect to such factors as income maintenance programs, adjustment assistance and legislation. The contrasting experience can also be informative because Canada has similarities with many Latin American countries. As such, the Canadian experience may be of particular relevance to Latin American countries contemplating trade liberalization with the United States, perhaps through accession to NAFTA or to other trade agreements.

The purpose of this paper is to outline the view from Canada and the United States on the impact of structural adjustment on labor markets and income distribution. Slightly more emphasis will be placed on the Canadian experience because, as indicated, that experience is likely to be of most relevance to Latin American countries. Within the dimension of income distribution, most attention will be paid to issues of wage inequality since that is the dimension that has been most subject to change from structural adjustments that have impacted on labor markets.
The paper begins with a discussion of the concept of structural adjustment as it applies to countries like Canada and the United States. Similarities between Canada and many Latin American countries are then outlined, as are the similarities and differences between Canada and the United States. The focus is on those dimensions that are likely to have the most important implications for labor market adjustment to structural changes. These implications are then analyzed, both with respect to the theoretically expected effects and some illustrative empirical evidence on the effects. The paper concludes with a brief summary and some policy observations.

**STRUCTURAL ADJUSTMENT AS APPLIED TO CANADA AND THE U.S.**

The concept of structural adjustment used in this paper refers to the process of restructuring to develop the competitiveness to facilitate adjusting to external shocks and to take advantage of new opportunities. As stated by Downes (199?, p. 23): "Structural adjustment can be broadly defined as the process of deliberately adjusting or changing the structure and operation of the economy to mitigate the effects of negative internal and/or external shocks or to take advantage of new opportunities to more effectively and efficiently achieve the objectives of economic development, namely economic growth, poverty alleviation, gainful employment, social service provision and environmental protection."
The concept of structural adjustment as applied to developed countries like Canada and the United States has both similarities and differences to the concept as it tends to be applied to developing countries. In the developing countries structural adjustment is often imposed as a condition of receiving international aid and assistance. Ingredients of such structural adjustment often include: macroeconomic stability (which often translates into the control of inflation); trade liberalization (lowering of tariff and non-tariff barriers, and the encouraging of exports); de-regulation and privatization; control of "excessive" public sector expenditures while encouraging investment in public infrastructures, including education, that can enhance competitiveness; and the diffusion of the benefits of growth to the broad population, perhaps in the form of human capital investment.

In countries like Canada and the United States, structural adjustment is not imposed as a pre-condition for international aid and assistance. Rather, it is imposed largely as a result of the imperatives of inter-related market forces, especially global competition and technological change. These have led to dramatic industrial restructuring, especially from manufacturing to both "high-end" services (managerial, administrative, professional, financial), and "low-end" services. They have also led to massive "downsizing" as large firms especially have shed their workforces often through plant closings and mass layoffs. Pressures for structural adjustment have also emanated from the pronounced recessions of the early 1980s and 1990s, with their legacy of high
unemployment.

Governments have also been under considerable pressure to adjust. Deficit control has been paramount, giving rise to restraint on government spending, especially because the "taxpayer revolt" precludes raising taxes to lower the deficit. Deregulation and privatization have been important aspects of structural adjustment, as have restraint in public sector wages and employment.

Since the demand for labor is derived from the production decisions of firms, and is affected by aggregate economic conditions and government policies, then structural adjustments in these areas have led to structural adjustments in labor markets with their attendant effects on wages and wage inequality. This has been compounded by pressures from the supply side of the labor market. Women in Canada and the United States continue to enter the labor market in rapid numbers so that their labor force participation rates, at approximately 60 percent, are rapidly approaching that of men at about 75 percent. The two-earner family is now the norm, not the exception. The large baby-boom population bulge (born immediately after World War II) is now middle-aged, creating adjustment problems associated with clogged promotion opportunities and skill obsolescence.

Clearly, structural adjustment is a key feature of the economies and of the labor markets of both Canada and the United States. While both countries have been subject to similar structural adjustment pressures, they have often responded in
different ways, reflecting differences in their labor market institutions including government policies and programs. Before analyzing these different responses and outcome, some similarities between Canada and Latin American countries will be documented. The similarities highlight the potential relevance of the Canadian experience to Latin American countries -- notwithstanding differences between snow and sunshine, and hockey and soccer.

SIMILARITIES BETWEEN CANADA AND LATIN AMERICA

Canada is a small open economy, with 30 percent of its GNP emanating from trade, over 70 percent of which is with the United States. In trade relations it is dwarfed by its neighbour and major trading partner -- the U.S. The U.S. also accounts for a high proportion of the large amount of direct foreign investment that exists in Canada. That investment occurred in large part to "jump the tariff walls" by directly producing in the country given the difficulty of exporting into Canada in the face of tariffs and quotas. The direct foreign investment has occurred largely in the form of a proliferation of small branch plants of large U.S. multinationals producing for the small Canadian market. When subject to more open competition, these inefficiently small-scale branch plants have incurred significant adjustment problems as they are restructuring to serve a more global market. The direct foreign investment also has engendered nationalistic responses,
especially in the form of concern over domination by the U.S. in cultural as well as financial matters. This concern, for example, prompted the exclusion of cultural industries from the Canada-U.S. Free Trade Agreement.

Canada is rich in natural resources, with the extraction rents fostering much of its earlier growth. Pressures have existed to diversify away from being a "hewer of wood and drawer of water". As labor costs increase, pressures also exist to develop higher value-added production as a survival strategy under global competition. Canada developed, especially its manufacturing base, under a protective tariff, and is now adjusting rapidly to trade liberalization and international competition.

While the country is hugh in size, the vast majority of its population lives in more condensed areas in close proximity to the border with the United States. For most part, the border is not a natural one in "economic terms" since the natural trade relations and most geographic structures run North-South. In spite of this, Canada itself has essentially developed East-West, often through conscious spending on infrastructures especially railroads, highways and communications links.

Immigration has been an important source of labor supply, and has given rise to considerable ethnic and cultural diversity. Ethnically, the country is generally characterized as heterogenous, with government policies consciously fostering multiculturalism. The phrase "vertical mosaic" has been used in contrast to the "melting pot" pressure to assimilate that is often the stereotype
of the United States. Officially, Canada is bilingual, with the two official languages being English and French. In spite of the multi-culturalism, ethnic and regional tensions are pronounced, especially with respect to the indigenous people and with respect to a strong separatist movement in the province of Quebec.

Clearly, many characteristics of Canada exist in Latin American countries. As such, the Latin American countries may be particularly informed by Canada's experience in adjusting to structural change, especially if Latin America embarks down the road of greater trade relations and economic integration with the United States. The Canadian experience is of particular relevance because it is the result of both similarities and differences with U.S. labor markets. The similarities highlight the common pressures and institutions that affect the response to structural change. The differences highlight that different policy responses are possible -- and they have different outcomes.

**SIMILARITIES AND DIFFERENCES IN CANADIAN - U.S. LABOR MARKETS**

**Canada - U.S. Similarities**

Both countries are advanced industrialized economies that are in the transition to the "information-age", with greater emphasis on knowledge based technology. As such, their conventional manufacturing base with its middle income jobs is being displaced
by service jobs that tend to occupy the polar ends of the wage spectrum -- the high-wage "good jobs" in managerial, administrative, professional and financial occupations on the one hand, and low-wage "bad jobs" in the personal service sector on the other hand. Both countries are concerned about the possibility of downward wage convergence as they trade more with low-wage countries (Reynolds, 1992). Relative to Latin American countries, both Canada and the United States are high-wage countries. On a global basis, however, their compensation costs on an exchange rate adjusted basis are more "in the middle", close to Japan, slightly higher than France and Italy, but considerably below some of the higher cost Scandinavian and European countries, especially Germany (Gunderson and Verma, 1992, p. 67).

Labor adjustment in both countries also tends to be through the external labor market involving layoffs into unemployment and then subsequently being recalled or hired elsewhere or leaving the labor force. There is much less adjustment through the internal labor markets of firms through, for example, internal transfer or retraining during downturns. Adjustment in the labor input also tends to be through the employment dimension, more than through wages or hours. Both countries also have labor force participation rates of women that are approaching those of men, although women still tend to occupy the lower wage jobs. Both countries also have an increasing amount of non-standard, precarious employment associated with sub-contracting, temporary help agencies, fixed-duration employment contracts, and permanent part-time work.
In both Canada and the United States, collective bargaining tends to be decentralized, focused at the enterprise level. There is little corporatism or trade union involvement at the higher political levels, although unions are considered one of the more important interest groups.

The bulk of job creation in both countries is alleged to be coming from the growth and creation of small firms, although some controversy is emerging on this point (Brown, Hamilton and Medoff, 1990; Davis, Haltiwing and Schuh, 1993). Small firms may be the source of considerable job destruction as well as job creation, given the "death" as well as "birth" of many small firms. Their net job creation, therefore, may be considerably less than their gross job creation. Furthermore, while small firms may be associated with a high percentage or relative growth in employment, this need not translate into a large number of jobs in absolute terms simply because of the small base upon which the job growth rate is being applied.

It is also the case that small firms may be disproportionately "credited" with job creation, and large firms disproportionately credited with job destruction. A large firm that has a temporary reduction in employment will have that count as job loss associated with a large firm. After the employment reduction, it may then be categorized as a small firm. When its employment returns to its normal level, that employment growth will be credited to growth of a small firm. The opposite is the case with temporary employment changes in a small firm. If they have a temporary expansion it is
credited to a small firm. They then may be categorized as a large firm. When employment returns to its normal level, the job loss is associated with a large firm. In such circumstances, temporary employment fluctuations are such that the job losses are disproportionately associated with large firms and the gains with small firms.

It is also the case that the distinction between small and large firms is increasingly becoming blurred. Some of the formerly vertically integrated firms are essentially becoming "holding companies" forming quasi-permanent alliances with a host of small "downstream" suppliers and "upstream" distributors. In many circumstances, these small firms hire the employees of the restructured large firms. Such job churning would get associated with job losses from the large firms and job gains for the small firms. In such circumstances, however, the large firms are still an important "ultimate" source of job creation, through their alliances and joint ventures.

Canada - U.S. Differences

While there are considerable similarities between the labor markets of Canada and the United States, there are also notable differences. For Latin American countries, many of these differences are important because they highlight the extent to which independent labor market and social policies can be followed when small countries engage in exchange with larger more dominant
countries. Of prime importance, Canada tends to have a more extensive state supported social safety net of income transfer programs, legislative protections, and labor adjustment programs.\(^1\)

Income maintenance programs (e.g., social assistance or welfare) in Canada tend to have easier eligibility requirements and more generous income support. Unemployment insurance in Canada tends to be more generous in various dimensions: greater coverage, easier eligibility, longer duration, and higher income replacement rates. Both countries have state supported employment information and job matching agencies. They also have state supported labor adjustment programs that provide training, counselling, mobility assistance and wage subsidies for employing particular disadvantaged groups.

Precise differences between Canada and the United States in these training and labor adjustment programs are difficult to establish given the complexities of the programs, and the fact that they are often operated differently from how they appear on the books.\(^2\) In both countries implementation is being decentralized to the local level, training is being emphasized over income maintenance, and disadvantaged groups tend to be favoured. The

\(^1\) There is no single comprehensive source that systematically documents the differences in such policies and programs between Canada and the U.S., or their cost implications. Sources that provide information on different subsets of these programs include: Betcherman and Gunderson (1990), Card and Freeman (1993); Gunderson (1993a); and Rosen (1993).

\(^2\) Details of the specific labour adjustment programs, in the context of their applicability to deal with the effects of trade liberalization are given in Rosen (1993) for the United States, and in Finbow (1993) and Gunderson (1993a) for Canada.
U.S. does have a special component for workers whose jobs have been lost because of trade liberalization, but that program has been ineffective either because eligibility requirements have been too stringent, or when not stringent, the program has been abused with most displaced workers claiming to be harmed from import competition (McCleery and Reynolds, 1991). While the precise differences between Canada and the United States in their training and labor adjustment programs are difficult to establish, the evidence suggests that Canada does allocate a larger portion of its GDP to such programs, albeit both countries spend little in this area compared to most other industrialized countries (OECD, 1990). General education programs also tend to be somewhat more "egalitarian" in Canada than in the U.S. as evidenced by a higher proportion of the population that completes high school or basic vocational education, and a smaller portion that complete university.

With respect to legislated labor standards, minimum wages in Canada tend to be higher relative to the average industrial wage and they apply to a larger segment of the workforce. Hours of work regulation is more extensive, as are requirements for unpaid

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^3 Numerous references of the problems of specific trade adjustment assistance as opposed to more general adjustment assistance are given in Gunderson (1993b, p.25). The main concerns are that it is difficult if not impossible to determine whether the adjustment emanated from trade liberalization or some other source, and it not clear why workers adversely affected from trade liberalization should be treated differently from workers adversely affected by other sources of change. Even if it is to reduce resistance to such efficient changes, this should apply to other forces like technological change.
maternity leave (often supported from unemployment insurance funds). Comparable worth legislation (providing equal pay for work of equal value between men and women) is more prevalent in Canada, in contrast to the United States where it is largely "on hold" and limited to a small number of state governments. Canada also has more extensive requirements for severance pay and advance notice in the case of mass layoffs or plant closings. More protection also exists for workers who are fired without "just cause", in contrast to the "employment at will" doctrine that tends to prevail in the United States.

In Canada, occupational health and safety laws are more extensive, often requiring joint labor management health and safety committees at the workplace and granting workers the right-to-refuse unsafe work. For those who are injured, workers' compensation is more generous. Overall, universal health care exists, in contrast to the more private market driven system with private insurance carriers that prevails in the United States.

Collective bargaining law in Canada is also much more conducive to the formation and retention of trade unions. Aspects of the law that have been important in this regard include: certification through the signing of cards without a vote; stricter enforcement of unfair labor practices engaged in by firms; the possibility of mandatory first-contract arbitration; requirements for employers to collect union dues and remit them to the union; prohibitions on the use of strikebreakers during a strike; and more frequent granting of the right to strike to workers in the public
sector.

Finally, while neither country is corporatist, organized labor in Canada is more involved at the political level, trying to influence social policies and hence the "social wage". This occurs for various reasons. Canada has a left-leaning, union supported, social democratic party (New Democratic Party) that has often held power at the provincial level, and has been influential at the federal level. More attempts are made at consensual decision making with tri-partite co-operative efforts between labor, management, and government. Unlike the President in the United States, who has a party affiliation but is independently elected, the Canadian Prime Minister (Premiers at the provincial level of governments) is simply head of the majority party. In the U.S., for example, President Reagan had sufficient independent power to fire the striking air traffic controllers in the PATCO strike and replace them with permanent replacements. This would be much more difficult in the Canadian system, where Parliament would have to make that decision and hence be subject to more public debate and scrutiny.

In Canada, the federal-provincial division of powers are such that most labor matters fall under provincial jurisdiction with 90 percent of the workforce under that jurisdiction. This is in contrast to the United States, where the federal government sets uniform labor laws. The separate states cannot fall below these standards although they can set more stringent standards.
IMPLICATIONS FOR LABOR ADJUSTMENT

The similarities and differences between Canada and the United States in their economic and social structures as well as institutions, laws and programs, have been used as "natural experiments" to evaluate the impact of differences in laws, policies and programs. That is, the similarities provide a natural mechanism to "control" for the confounding effect of other variables that could otherwise influence labor market and social outcomes. The differences provide variation in the policy instruments that is crucial for determining the impact of policy changes. This has been applied to the analysis of immigration policies (Chiswick, 1993) as well as labor market and social policies (Card and Freeman, 1993).

The main issue for purposes of this analysis is whether the more government interventionist strategies followed in Canada, compared to the more laissez-faire, market oriented strategies followed in the United States, have had a significant impact on labor market outcomes as they have been affected by structural adjustment. While there certainly is not a consensus in this area, and while the issue has not been addressed in a systematic overall research agenda, there are some suggestive results.

Unionization Rates

There is general agreement, for example, that differences in
the laws and institutions between the two countries have been important in sustaining unionization in Canada, compared to the dramatic decline in the United States (Riddell 1993 and references cited therein). Unionization rates in Canada are over twice the 16 percent rate that now exists in the United States, while both countries had identical rates of about 30 percent in the mid 1960s. There is not agreement, however, on the impact of the different degrees of unionization on the labor market responses to structural adjustment, or on how unions have affected productivity and the performance of firms (Gunderson, 1989). On the one hand, unions can retard adjustment through various mechanisms: restrictive workplace practices (e.g., restrictions on sub-contracting and on who can do particular types of work); wage rigidity; seniority for promotions and layoffs; restrictions on technological change; and pattern bargaining. On the other hand, unions can be flexible in these areas. They can also facilitate adjustment by articulating the preferences of their membership and providing information on job alternatives. While they may retard the adjustment process, they can also make it more humane by bargaining for such items as advance notice, severance pay and early retirement.

Wage Polarization, Income Inequality and Poverty

The dramatic changes that have been affecting the labor markets of Canada and the United States have led to greater wage inequality and wage polarization in the labor market. In essence,
the middle income, blue-collar manufacturing jobs have dissipated and are being replaced by both high-wage and low-wage jobs. To a large extent, the manufacturing jobs have been lost because they are in the "tradable" sector, subject to import substitution especially from low-wage countries. The same applies to some of the lower wage jobs, where wages are also depressed by the downward pressure from workers who are displaced from the manufacturing jobs. The jobs at the higher end of the wage distribution (managerial, professional, administrative) are protected from import competition because they tend to be in the "less tradable" sectors. When they are in tradables, they involve high value-added exports. Wage polarization has also been fostered by technological change that happens to be biased towards skilled labor and away from unskilled labor.

Empirical evidence on wage polarization and income inequality suggests the following generalizations: (1) Wage polarization has increased in the United States, especially over the 1980s. (2) Both trade liberalization and technological change have likely contributed to that polarization, although there is disagreement over their relative contribution.4 (3) The polarization in Canada has been less than in the United States, mainly because wages at

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4 Borjas, Freeman and Katz (1992), Katz and Murphy (1992) Murphy and Welch (1991, 1992) and Leamer (1993, 1994) find that import competition from labour intensive products had its most adverse effect on wages at the lower end of the skill spectrum in the U.S. and that this contributed to the growing wage inequality that occurred especially in the 1980s. Krugman and Lawrence (1993) find trade liberalization not to be an important contributing factor, at least relative to biased technological change that reduced the relative demand for less skilled workers.
the higher end in Canada have been dampened by a larger influx of higher educated individuals (Freeman and Needles, 1993) and because of the higher degree of unionization in Canada and the fact that unions compress wage differentials (Lemieux, 1993). (4) Income inequality and poverty increased in the United States over the 1980s but declined in Canada, mainly because of the more generous income support programs (Blank and Hanratty, 1993).

Non-Standard, Precarious Employment

The structural adjustment that has occurred in both Canada and the United States has also led to a polarization in the type of jobs. Many of the new job creation has been in what is termed non-standard, precarious employment: limited duration contracts; subcontracting; temporary help agencies; permanent part-time jobs; and "homeworking" done in the persons home, especially in the garment trades. These jobs tend to have low pay, few fringe benefits, little job security, and little protection under employment standards laws. They often provide the buffer to absorb demand shocks and to provide flexibility to the firm -- a "just-in-time" workforce to meet the "just-in-time" delivery pressures that have become more prominent. Such precarious jobs are to developed economies what the informal sector is to the less developed economies.

While such jobs have increased in both Canada and the United States, systematic evidence does not exist indicating where their
growth has been greatest. They may be less prominent in Canada given the much higher degree of unionization in that country and the fact that unions have resisted the formation of such jobs. However, they may also be used by employers as a way around the labor cost and rigidities imposed by unions as well as regulations imposed by governments -- both of which are more prominent in Canada.

**Changing Workplace Practices**

The structural adjustment faced by firms in Canada and the United States has also led to dramatic changes in the internal workplace practices of firms. Most of these have been fostered to provide flexibility and adaptability, as well as the quality and commitment to customer satisfaction associated with higher value-added production.

The number of job classifications have been reduced so that workers do a wider range of tasks, putting a premium on multi-skilling and general training. Employee participation has been fostered through various mechanisms including quality circles, team production, suggestion schemes, and even employee ownership schemes. Compensation has become more flexible in various ways: wage concessions; piece rates; profit sharing; pay for performance; and two-tier contracts where the new employees are hired at lower rates. Working time arrangements have also become more varied: flexible working hours where the start and end times can vary
across individuals; compressed workweeks where the workweek of 40 hours is compressed into four 10 hour days; early retirement often induced by pension enhancements; job sharing where two individuals share the same job at different times and each on a part-time basis; and worksharing, where all employees agree to reduce their working time in return for no layoffs.

Systematic evidence does not exist on the extent of each of these different workplace practices. However, they have increased over time and they are more prominent in the United States than in Canada (Long, 1989). This is consistent with the more laissez-faire market oriented nature of the U.S. labor market, compared to Canada, and in fact compared to most countries.

Productivity

Structural adjustment to meet new competitive challenges requires productivity growth to ensure that real wages can rise while prices remain competitive. Productivity growth should be the result of the dynamic restructuring of the economy, and it should sustain the improvements in real standards of living. It is crucial to ensure high value-added production -- a key element of competitiveness in high labor cost countries. There is general recognition that high productivity is absolutely crucial to compete with countries where labor costs are in the neighbourhood of one tenth of those of Canada and the United States.

Throughout most of the 1970s and early 1980s, productivity
growth has been stagnant or even negative in the major industrialized countries\textsuperscript{5}. However, after the recession of the early 1980s, productivity growth rebounded substantially in most of these countries, especially the United States. Canada has been the exception, with continued stagnant productivity. This has led to large increases in unit labor cost (wages adjusted for productivity and the exchange rate) in Canada relative to the United States, just at the time when Canada entered into the Free Trade Agreement with that country in 1989.

Unemployment

A similar negative picture of Canadian economic performance relative to the United States emerges with respect to unemployment rates. Such rates have been fairly similar between Canada and the United States since the 1950s, but they began diverging especially during the 1980s. Currently, at almost 11 percent in Canada, they are almost twice the rate of the United States -- a dramatic difference for countries whose economies are fairly similar in many other respects. Card and Riddell (1993) provide empirical evidence that much of the growing gap can be attributed to the more generous unemployment insurance scheme in Canada, although they also indicate that most of the gap remains unexplained.

\textsuperscript{5} Data for this paragraph is discussed in Gunderson (1993b, p.39), Prosperity Secretariat (1991, p.9), and Porter (1992).
CONCLUDING OBSERVATIONS

While the labor markets in Canada and the United States are similar in many respects, they are also different in other important dimensions. This is especially the case with respect to government policies in such areas as income maintenance, adjustment assistance, labor standards and collective bargaining laws. These in turn can have important implications for how labor markets respond to structural adjustments.

In general, Canada does follow a more interventionist route, compared to the more laissez-faire, market oriented strategy followed in the United States. Although a systematic analysis of the effect of these different strategies is not available, a limited number of studies suggest that they have led to a "softening" of the adverse consequences from structural adjustment in Canada compared to the United States. For example, Canada appears to have a more extensive social safety net, more protection provided through labor standards and unions, and less wage inequality. This may come at a price, however, in such forms as lower productivity and higher unemployment. These in turn could have negative feedback effects on long-run income growth.

It would be premature to make a judgement call as to whether this reflects the classic trade-off between issues of efficiency and equity, with the U.S. labor market operating more efficiently but with more adverse distributional consequences. It does suggest, however, that alternative policy choices are possible, and
they can affect how labor markets respond to structural change.

Whether such policy choices will be circumscribed by global market forces in the long run remains an open and interesting question. With greater trade liberalization and capital mobility, countries (and regions and cities within countries) may find it more difficult to establish costly policies and programs that have only an equity oriented rationale and that conflict with efficiency and competitiveness. Countries may increasingly find themselves competing for business investment and plant location decisions -- and the associated jobs -- on the basis of providing a low-cost regulatory environment, including labor laws, policies and programs.

In many areas, this may be desirable, getting rid of "excessive" regulations that have no efficiency rationale and that serve only to protect rents that are sustained by such regulations. Policies that have an efficiency rationale, for example, that provide a human capital infrastructure or that facilitate the operation of markets should not only survive but thrive under such jurisdictional competition. The same is true of policies that have an equity rationale but that also enhance efficiency, perhaps by reducing resistance to change, or by providing a more stable political environment6. In other cases, the jurisdiction may be

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6 In commenting on the reasons for the success of Costa Rica's adjustment strategy of the 1980s, Gindling and Berry (1992, p. 1612), for example, indicate: "Perhaps the most general has been a relatively satisfactory sharing of the burden of crises/adjustment such that no groups remained so disgruntled as to pursue highly disruptive tactics."
willing to pay the price for policies that have a pure equity rationale and that conflict with efficiency -- that price is now simply more explicit in the form of lost business investment and the associated jobs.

Whether this will lead to a "race to the bottom" in terms of social policies and legislative regulations, or to the dissipation of inefficient rent seeking policies, remains an interesting and important question. Answers to this question will benefit by more research on various factors: the extent of different labor market regulations and policies across countries; the degree to which their equity and efficiency objectives conflict and they impose costs and conflict with competitiveness; the extent to which business investment and plant location decisions are affected, positively and negatively, by such programs; and the degree to which different jurisdictions alter their policy initiatives in response to such investment decisions.

This will be an important area for further research, in Canada and the United States as well as in Latin America. It also highlights that it is important to know not only how labor market institutions and policies affect labor market outcomes, but also how labor market institutions and policies themselves are shaped by the forces of global competition and economic interdependence.
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