

Lessons from Labor Market Reforms Around the World

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and the National Bureau of Economics Research

Bridges: Dialogues Towards a Culture of Peace

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I. General Principles

1. Goal of Lecture: To Extract Some Common Lessons From Successful Reforms of Labor Markets And Product Markets Around the World.

Lessons that Help Economies Adapt to World Trade and the Pressures of Globalization.

2. World Economy and New World Economic Order.

- a) World Economy More Open and More Competitive.
- b) New Players Coming on Board (e.g., Brazil, China, Rejuvenated India).
- c) Accelerating Pace of Technology (Especially IT)

3. In Certain Aspects, Trade and Technology Less Predictable.

- More Uncertainty at Worker and Firm Level.
- This Has Led to Calls for More Worker Protection to Provide Social Insurance Against Uncertainty.
- The Argument is That Such Policies Reduce Inequality by Reducing Uncertainty.
- If Anything, These Policies Increase Inequality.

- If Implemented, These Programs Would Have Serious Consequences for the Productivity of the Economy.
- In Poorer Countries, Greater Use of Mandates and Lifetime Tenure.
- These Can Be a Source of Problems. They Impair Productivity Unless Flexibility is Imparted Elsewhere in the System.

4. In the Modern Economy, a Premium Has Emerged For Those Persons, Firms, Institutions and Governments that Can Adapt to Changes and Opportunities.

5. Factors That Promote Adaptability Are

- a) Education and Skill.
- b) Ability.
- c) A Regulatory Environment That Promotes Adaptation, Entry of Firms and Technology With New Ideas.
- d) Mobility Across Occupations, Regions and Borders.
- e) A Culture That Gives Incentives for Excellence At All Levels of Society.
- f) What is Needed is a Sense of Dynamism, Not a Few Patchwork Policies.

6. New Economy and Trading Relationships.
 - a) A Model of Marriage and Divorce.
 - b) Productive Partnerships that Can Be Reconstituted When it is Mutually Profitable to Do So.
 - c) Emphasis on the Individual, Uniqueness; Persons and Firms Pursue Comparative Advantage.
 - d) Uniform Rules Distort.

7. Older Model of the Economy is Obsolete.
 - It Still Governs Policy Discussions Around the World.
 - Representative Agents of Different Classes.

- a) Aggregates Of Workers: “Labor”—
Assumed to Have Common Interests
- b) Aggregates Of Firms: “Capital”—
Assumed to Have Common Interests
- c) Stresses Class Conflict.
- d) Views the Economic Problem as One of
Dividing a Fixed Pie; Zero Sum Game.

- e) Focuses on Redistribution and Not Efficiency and Wealth Creation.
- f) Seeks to Protect Workers Against Exploitation.
- g) Does Not See the Mutual Benefit of Incentives for Productivity Enhancement.
- h) Seeks to Protect an Established Order More Generally.

8. Corollaries of These View Points

- a) Regulation
- b) Protection (Import Substitution)
- c) Insurance—Not Wealth Creation;
Preservation of the Status Quo
- d) Fear of Markets and Incentives
- e) Emphasis on Equality over Efficiency

9. In Extreme Cases, the Failure of This Old View of Antagonism, Regulation and Control is Evident.
- a) Eastern Europe
 - b) Failure of Import Substitution Policies in Latin America
 - c) Protected Economies Fell Behind Technology Frontier
 - d) No Income Growth
 - e) Equality—Such as it was—Purchased at a Substantial Cost of Economic Welfare

10. Production and Job Security Inculcated Monopoly at Every Level of Economic and Social Life

- a) Inefficiency In Trade
- b) Surly and Unproductive Workers
- c) Sapped Vitality to Create and Innovate
- d) Provided Protection for Some Workers in an Inefficient Way at the Cost of Inequality in The Greater Society
- e) Loss of Dynamism

11. To Varying Degrees, Economists and Politicians Around the World Recognize the Need to Reform Systems and Reforms Have Been Tried. Reformed Societies Are Visibly More Productive.

12. What Lessons Have Been Learned?

Main Lessons:

- a) Introducing Incentives Raises Productivity.
- b) Locally-Based Incentives (Incentives to Produce, Not to Politic) Are the Most Effective.
- c) In Times of Rapid Technological Change and Competition in Trade, Preserving Old Working Relationships (Lifetime Jobs) is Not Productive.

- d) Product Market and Labor Market Regulation Go Hand In Glove; Reforms to Both Are Essential For Raising Productivity.
- A Strong Complementarity in Reforms that Introduce Competition.
- e) Flexible Wages Reduce the Burden of Regulation; Binding Minimum Wages Reduce Employment and Impair Productivity.

- f) Partial Reforms Can Be Destabilizing.
—Half a Loaf May Be Worse Than No Loaf At All.
- g) Lessons Transportable. Technologies and Demand Parameters Are Common Across the World. Lessons About Incentives and Technology Learned in Chile, Argentina, Europe or North America Also Apply to East Asia.

- h) Human Beings Everywhere Respond to Incentives.
- i) A Larger Lesson Has Also Been Learned: Most Successful Reforms Inculcate a State of Dynamism into the Economy and Society and Foster a Culture of Excellence.

II. Labor Market Reforms

Draw in part on New Book
Published by the University of Chicago

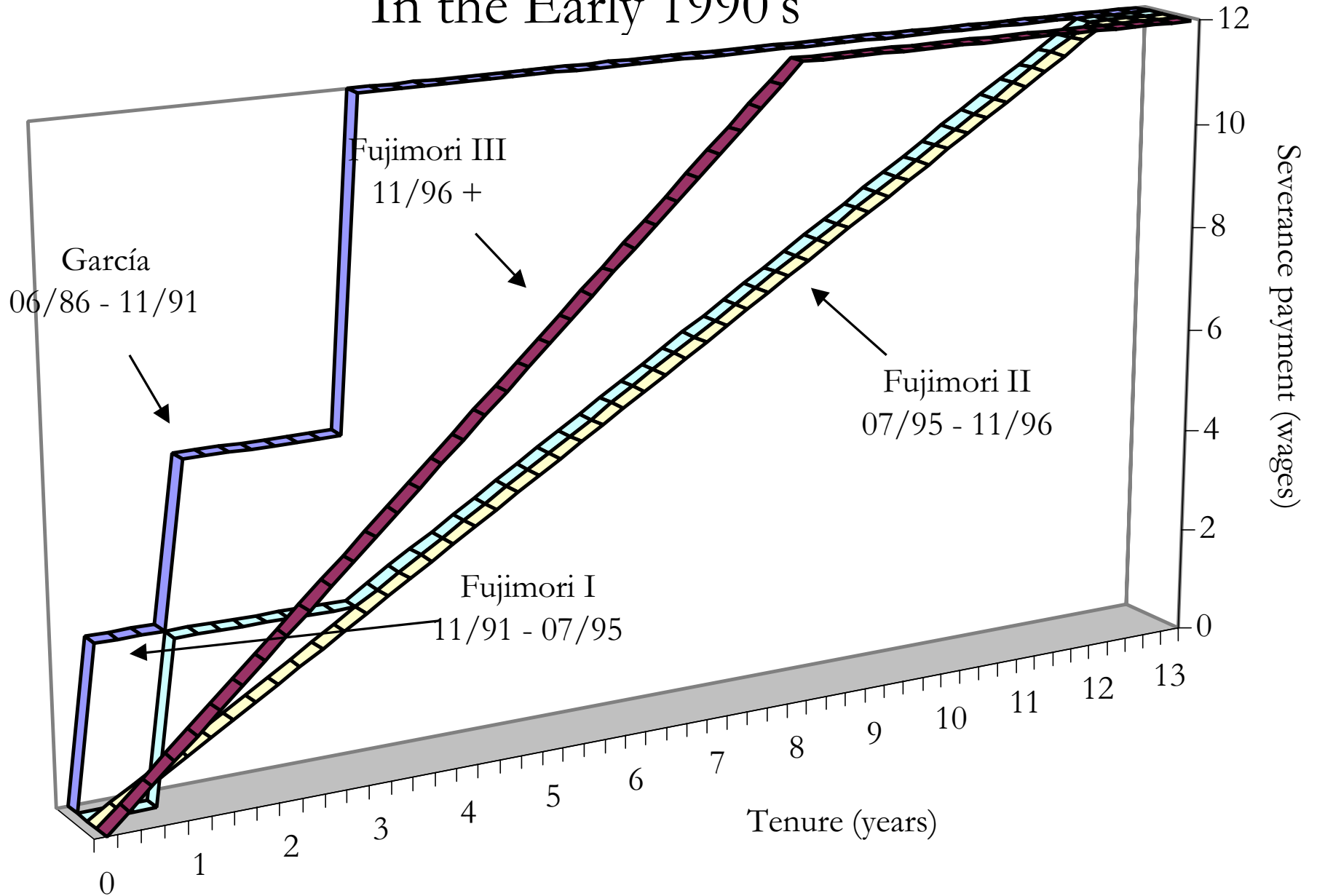
***Law & Employment:
Lessons from Latin America
and the Caribbean***

Edited by James J. Heckman and Carmen Pagés
University of Chicago Press
For NBER, 2004

- Latin America Has Conducted Many Policy Experiments Good and Bad Which Can Teach Lessons Transportable Elsewhere.
- The Patterns of Policy Instability Give Us A Lot of Sometimes Crazy Economic Experiments From Which We Can Learn About the Basic Economics of Incentives.
- Patterns of Response of Demand For Labor With Respect to the Wage Are the Same Around the World.
- Will Pool Studies Across Many Countries.

Severance payment regimes in Peru

In the Early 1990's



Expected severance payments as a percentage of total wages, Peru 1986-1996

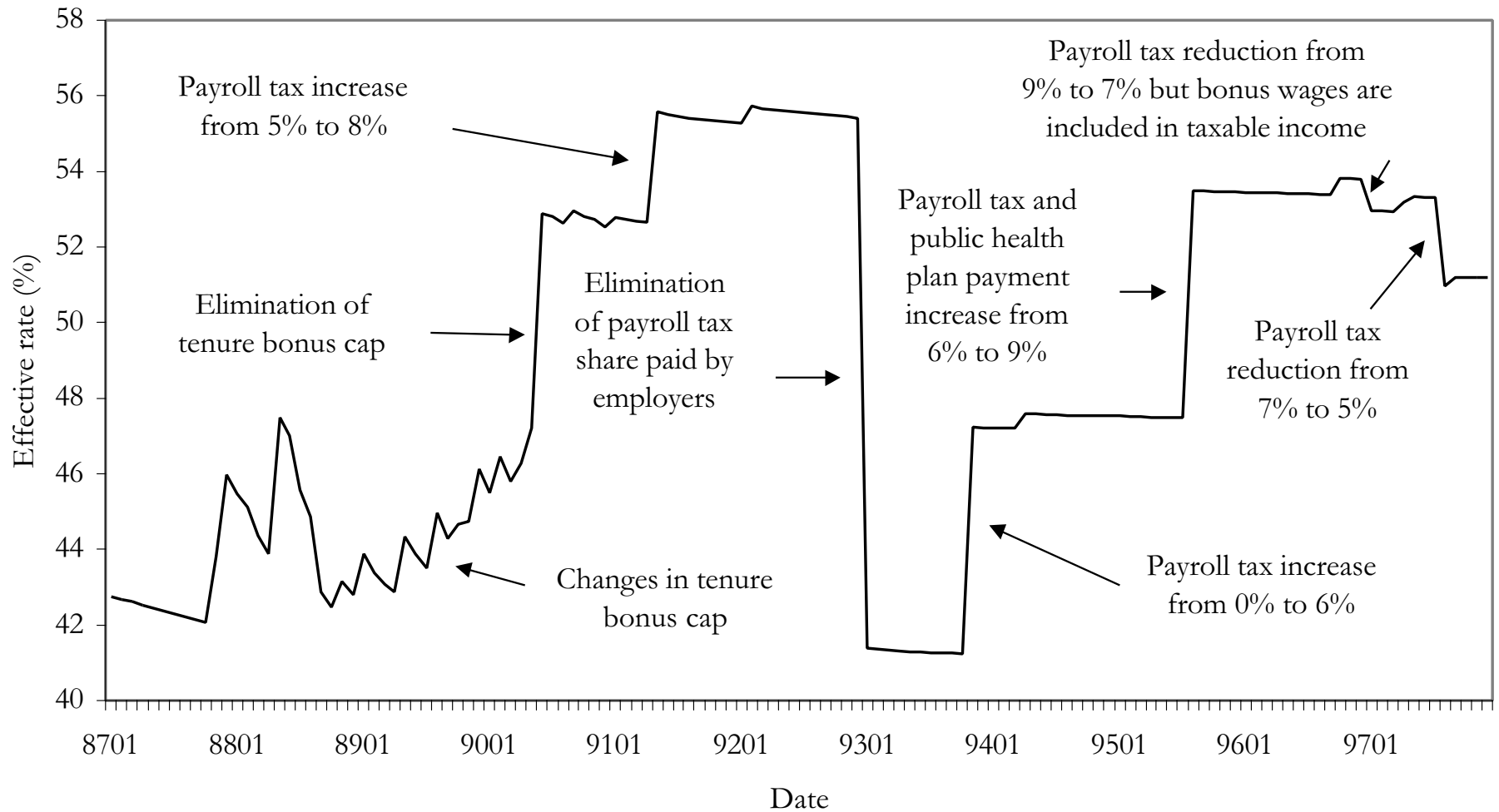


Notes: Total expected severance payments have been divided by the total wagebill to eliminate wage and employment trends.

See footnote for an explanation of the adjustment.

- Sample change
- Legislative change

Evolution of non-wage costs paid by employers - Peru



Note: Non-wage costs paid by the employer include payroll tax, tenure bonus, public retirement plan payments and public health plan payments. Vacations and holiday bonus are included in the effective rate, although they were not modified during the period, and stand for 25% of non-wage costs paid by the employer (2 bonus wages and one month of paid vacations per year).

First, Turn to Studies of Union Reforms.

- Example: The Benefits of Redefining the Role of Unions.

- a) Pencavel's Three Principles:
 - Exploit Local Knowledge and Incentives
 - i. The More Decentralized the Locus of Collective Bargaining, the More Economically Productive the Worker-Firm Relationship, and Less Rent Seeking By Unions

- ii. Public Policy Toward Unions Should Be Even-Handed and Not Favor One Party Over Another.
- iii. Governments Should Allow Parties to Set the Rules and Not Impose Uniform Rules On All Bargaining Pairs.

b) Case Study of Britain

i. Review History

ii. Look at Reforms

iii. Raise Productivity of Firms (Union and Nonunion)

- iv. Moral: Not to Get Rid of Unions, But to Change the Union-Firm Relationship to Focus on Locally Enhancing Productivity.
- v. Reforms in Union Sector Were Complementary With Product Market Reforms. Synergies.

c) Case Study New Zealand

i. Review History

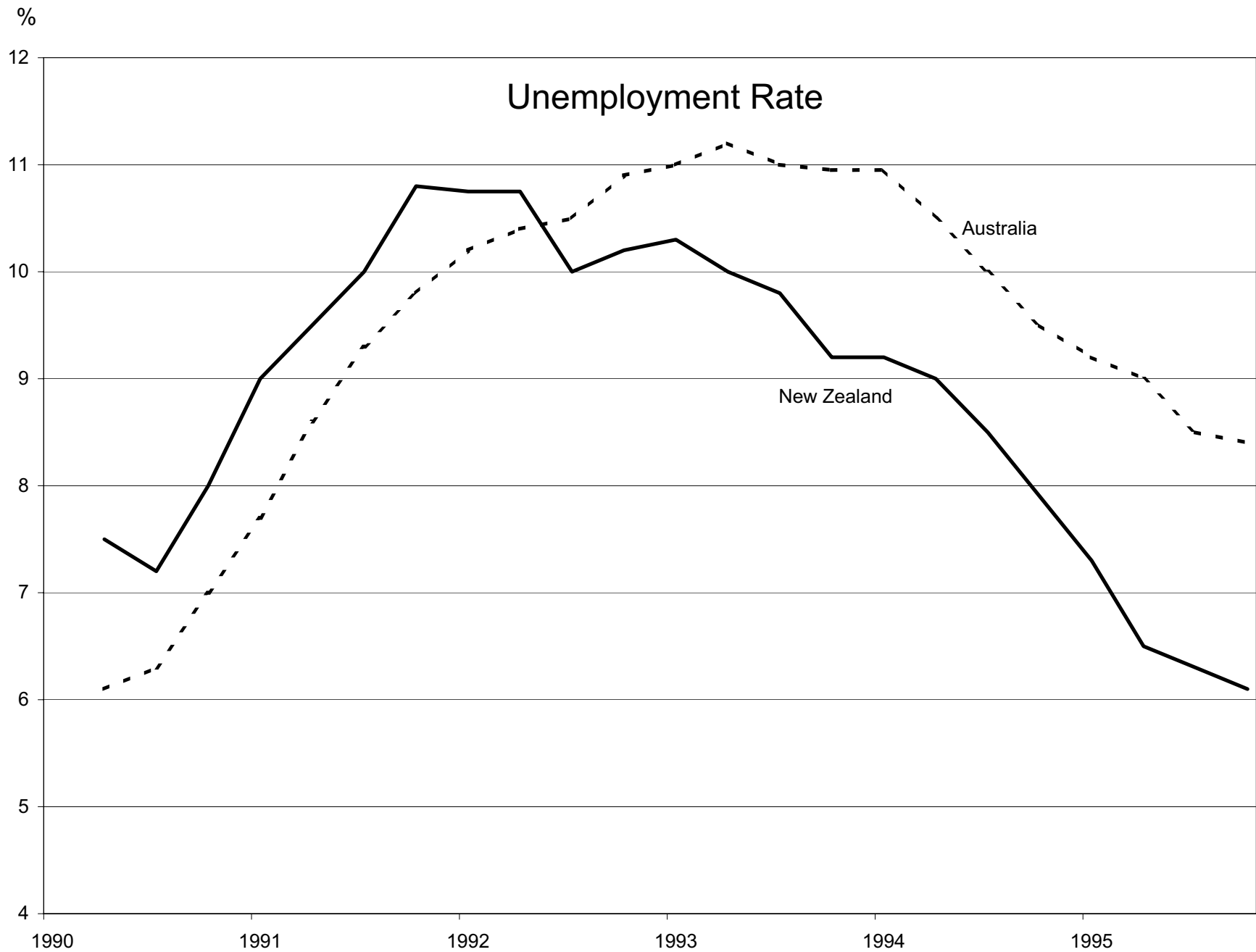
ii. Incremental Reforms and Problem of Instability

iii. Long-Term Effects vs. Short-Run Effects

Index: 1990 = 100



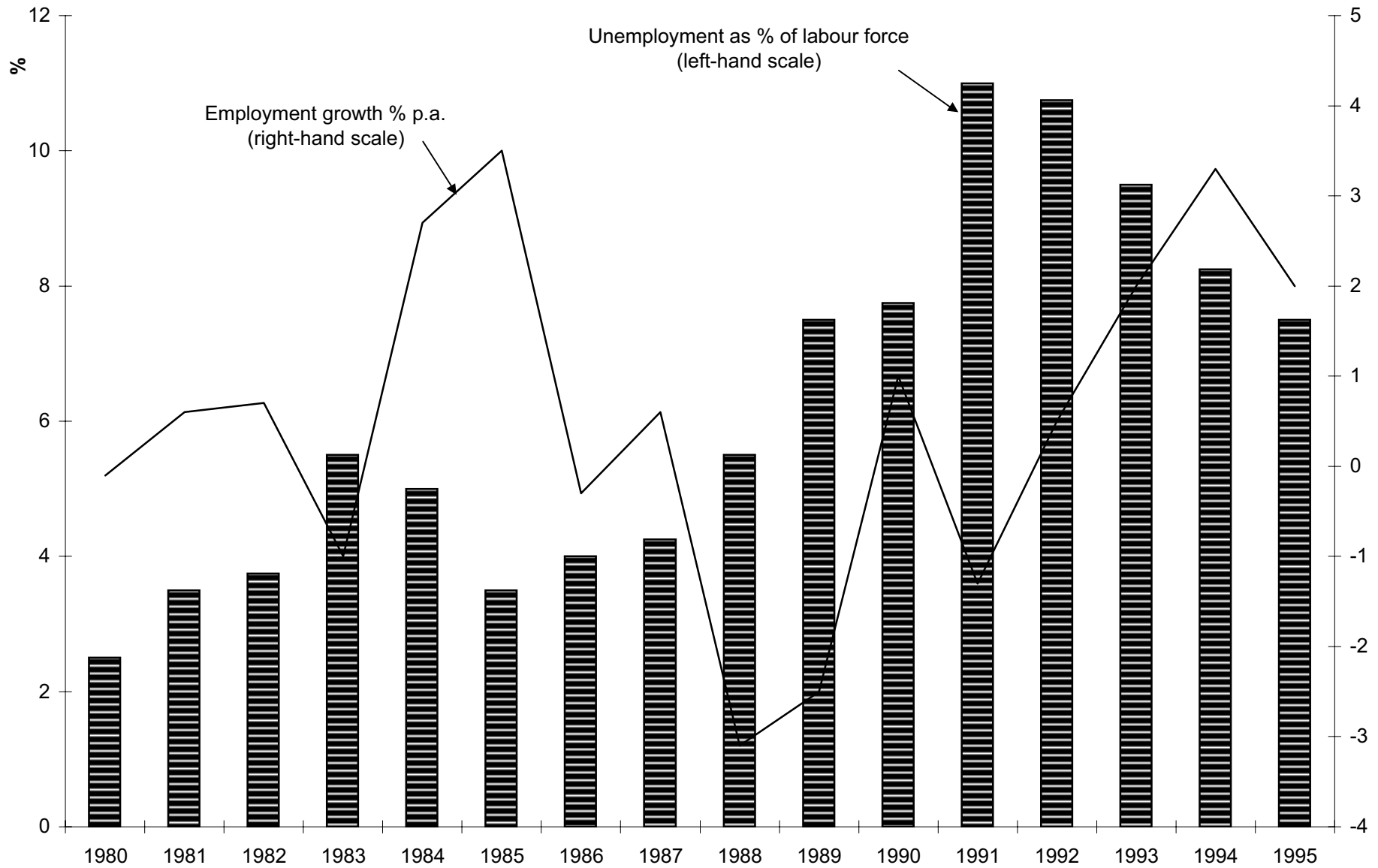
Source: Kasper, Wolfgang. *Free to Work: The Liberalisation of New Zealand's Labour Market*. Policy Monograph 32. St. Leonard's Australia: Centre for Independent Studies. 1996.



Source: Kasper, Wolfgang. *Free to Work: The Liberalisation of New Zealand's Labour Market*. Policy Monograph 32. St. Leonard's Australia: Centre for Independent Studies. 1996.

New Zealand Reforms and Economic Performance, 1980-1995

The Jobs Market

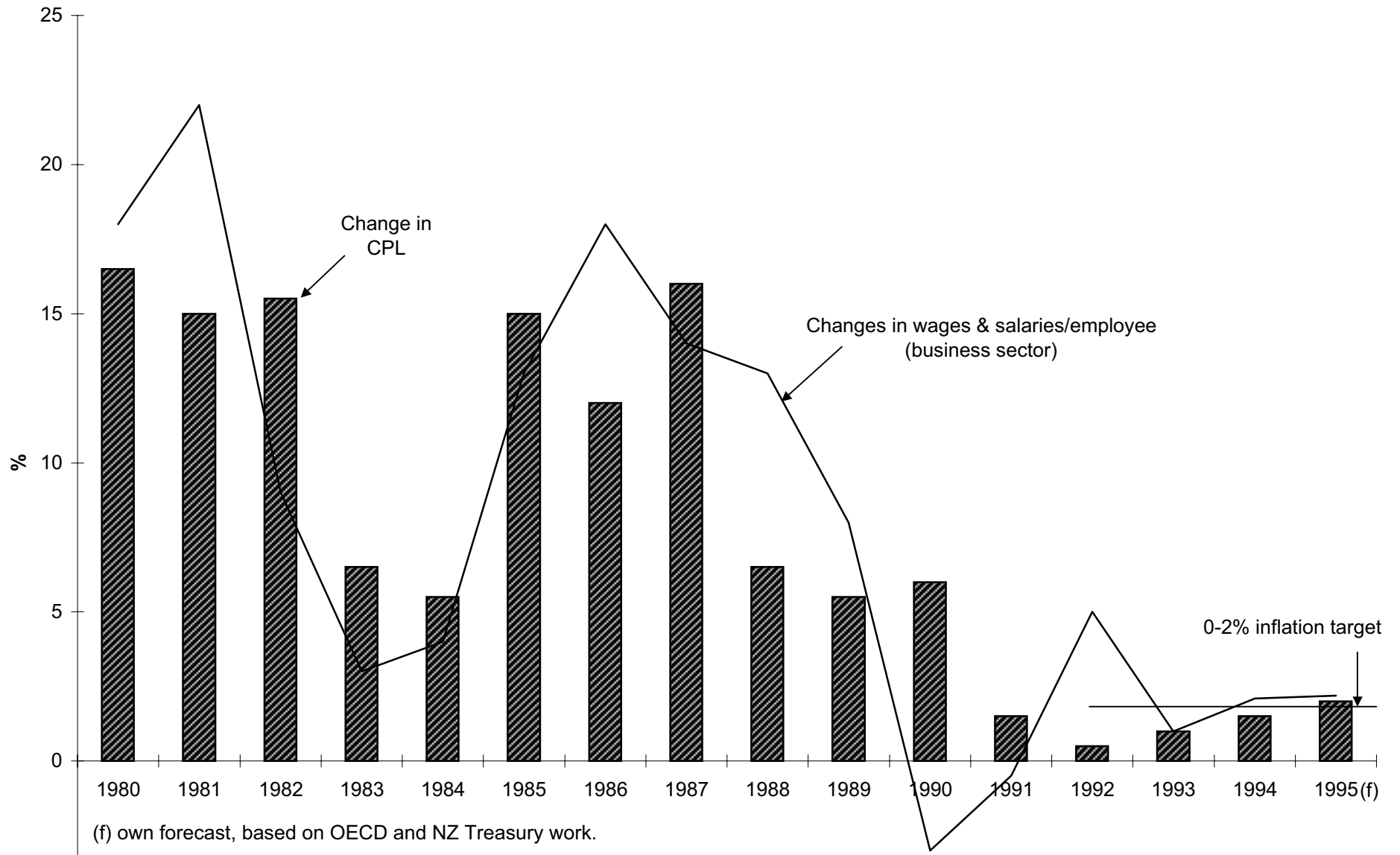


(f) own forecast, based on OECD and NZ Treasury work.

Source: Kasper, Wolfgang. *Free to Work: The Liberalisation of New Zealand's Labour Market*. Policy Monograph 32. St. Leonard's, Australia: Centre for Independent Studies. 1996.

New Zealand Reforms and Economic Performance, 1980-1995

Inflation



Source: Kasper, Wolfgang. *Free to Work: The Liberalisation of New Zealand's Labour Market*. Policy Monograph 32. St. Leonard's, Australia: Centre for Independent Studies. 1996.

d) Uniform Wage Setting in Italy (South and North) and East Germany.

Leads to High Rates of Unemployment and Reduces Demand.

2. Labor Demand Curves Are Downward Sloping.

- Raise Labor Costs, Reduce Employment.
- Law of Demand Has Not Been Repealed Despite Claims to the Contrary.
- Binding Minimum Wages Reduce Employment.

Estimates of Long-run constant-output labor demand elasticity

Study	Data	Description	Wage Elasticity
A. Latin America			
Mondino & Montoya (this volume)	Panel of Establishments. Manufacturing. 1990-1996. Quarterly. Argentina	No capital. Instruments for output and wages. From dynamic labor demand	[-.353,-.94]
Saavedra & Torero (this volume)	Panel of Establishments. Firms with more than 10 workers. 1986-1996. Bimonthly. Peru	No capital. Instruments for output. Labor costs includes legislative costs. Static labor demand	-.19
Fajnzylber & Maloney (2000)	Panel of Establishments. Yearly. Various countries		
	Chile(1981-1986)		
	White Collar		-0.214
	Blue Collar		-0.373
	Colombia (1990-1991)		
	White Collar		-0.26
	Blue Collar		-0.489
	Mexico (1986-1990)		
	White Collar		-0.128
	Blue Collar		-0.203

Estimates of Long-run constant-output labor demand elasticity

Study	Data	Description	Wage Elasticity
A. Latin America (continued)			
Roberts & Skoufias(1997)	Panel of manufacturing data. 1981-1987. Colombia		
	Skilled		-0.42
	Unskilled		-0.65
Cassoni et al. (this volume)	2-digit manufacturing. 1975-1997. Uruguay.	No capital. System of equations	
	1975-1984		-0.69
	1985-1997		-0.22
Cardenas and Bernal (this volume)	Panel of 92 Manufacturing Sectors	No capital. Dynamic labor demand	-1.43

Continued

Study	Data	Description	Wage Elasticity
B. Rest of the World			
Waud (1968)	2-digit manufacturing. 1954-1964. Quarterly. U.S.	Capital	-1.03
de Pelsmacker (1984)	5 auto manufacturing firms. 1976-82; Belgium	Capital, labor prices, production workers	-0.44
Field & Grebenstein (1980)	10 2-digit manufacturing ind. 1971. U.S.	Capital and energy prices included	-0.51
Denny, Fuss and Waverman (1981)	2-digit manufacturing. Annual.	Capital & energy prices	
	Canada 1962-1975		-0.46
	U.S. 1948-1971		-0.56
Wylie (1990)	Four 2-digit manufacturing. Annual, 1900-1929. U.S.		-0.52

Source: Heckman and Pages (2003)

3. Payroll Taxes

- a) A Substantial Fraction of Total Labor Cost
- b) Disemployment Effect Depends on Pass Through: Strong Union Wage Minimums Lead to More Disemployment.

- c) How Much of the Cost Is Borne By Firms?
- i. Depends on How Flexible Wages Are.
 - ii. Depends on How Wisely Funds Spent. (Do Workers Value Benefit?)
 - iii. One Cost of Corruption and Bad Government is Firms Bear a Greater Share of Their Payroll Tax.

- d) Minimum Wages High and Binding in Some Labor Markets.
- e) Mandates Reduce Employment Unless Wages Flexible; If Wages Flexible, They Offset the Costs of Financing the Benefit.

- Tax Wedge High.
- Leads to Substantial Disemployment Unless There is Pass Through to Wages.

Tax wedge and social security contributions

(in percent of gross wages). (Source: Scarpetta, S., 1998)

	Total tax wedge		Employers' social security contribution rate	
	1985	1994	1985	1994
Australia	22,9	23,5	0,0	0,0
Austria	40,3	39,7	18,6	19,1
Belgium	54,2	53,5	28,8	25,8
Canada	26,9	31,4	4,7	6,2
Denmark	47,8	45,2	2,8	0,0
Finland	38,0	39,4	5,7	3,6
France	43,4	43,6	27,5	26,2
Germany	44,5	48,3	14,5	16,3
Greece	31,4	..	17,9	21,6
Iceland	16,5	22,9	2,1	2,8
Ireland	42,4	38,4	10,9	10,9
Italy	50,0	49,9	29,9	31,5
Japan	21,6	21,6	6,8	7,0
Luxembourg	38,4	35,1	13,3	13,0
Mexico	..	26,5	15,2	16,2
Netherlands	49,9	45,6	19,2	7,3
New Zealand	27,9	24,3	0,0	0,0
Norway	41,8	36,9	13,5	11,3
Portugal	30,7	34,3	16,7	19,7
Spain	36,6	38,8	23,8	24,0
Sweden	50,9	46,8	24,0	23,2
Switzerland	28,8	28,7	9,4	9,3
Turkey	37,0	35,7	8,3	6,7
United Kingdom	37,8	33,3	9,5	9,3
United States	33,6	31,2	6,6	7,1

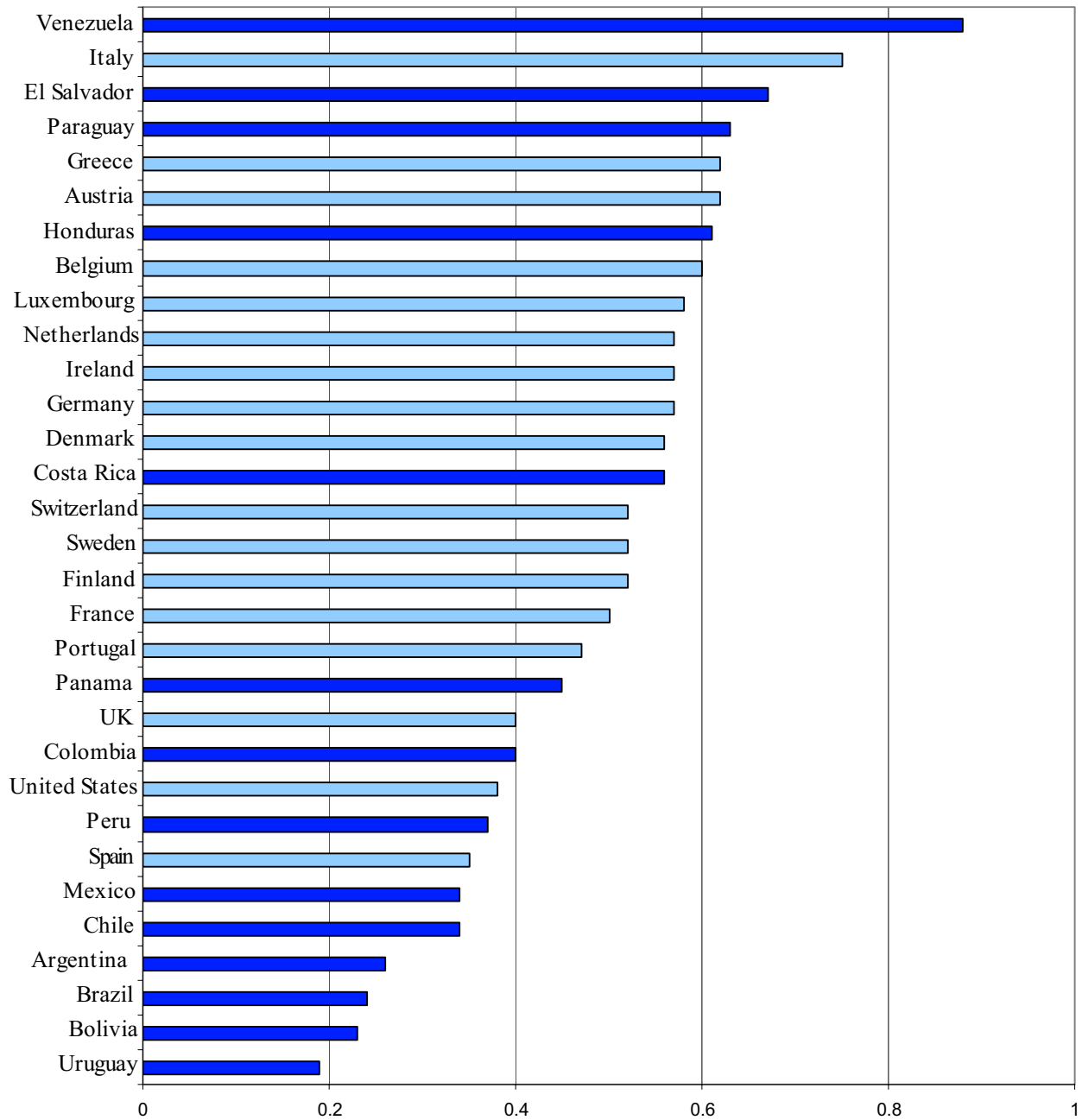
1. Total tax wedges include income taxes, employer and employee social security contributions, but not indirect taxes. Tax rates refer to one earner without dependents and take into account standard tax relief.

Source: OECD, *Tax/Benefit Position of Production Workers* (various issues).

Source: Scarpetta, Stefano. (1998) "Labour Market Reforms and Unemployment: Lessons from the Experience of the OECD Countries." Inter-American Development Bank Working Paper No. 382.

- High Minimum Wage and Job Protection Produce Less Flexibility in the Economy and Reduces Demand. They Make it Difficult for Wages to Adjust in Response to Payroll Taxes and Job Guarantees.

Minimum Wage/Mean Wage in OECD Countries and in Latin America



4. Many Economies Around the World Operate Under a Heavy Burden of Regulation of the Job Market; Adjustment Costs of Labor Raise Costs and Slow Adjustments.
 - a) Job Security Levels Higher in Many Less Developed Countries (as % of Wages) Than in OECD Europe.
 - b) Leads to Sluggish Employment Responses (Okun's Law Relationships)

Measures of Labor Market Regulations. End of the 1990's

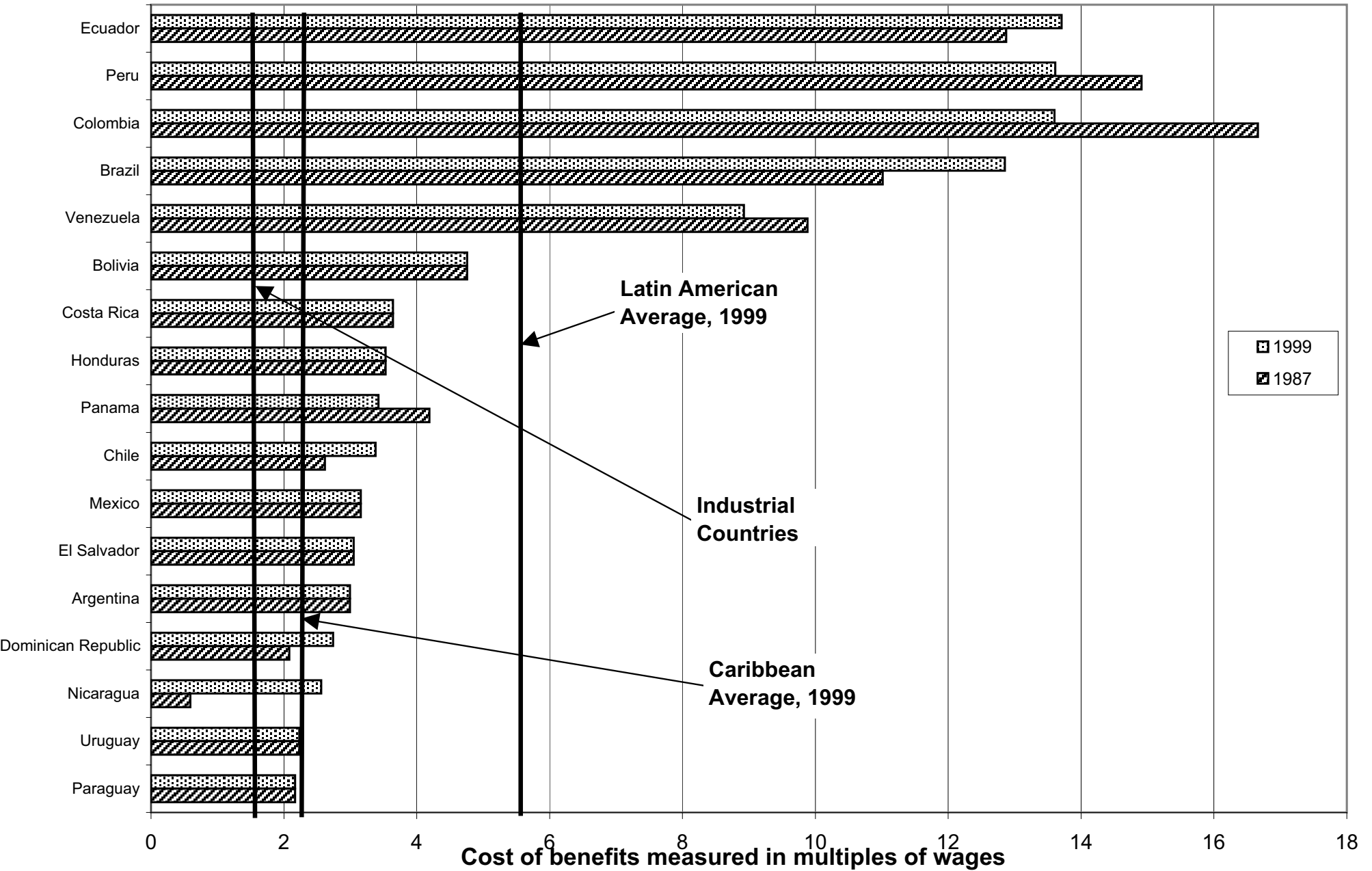
Country	Year	Advance Notice	Indemnities for dismissal	Seniority Pay	Social Security Contributions (EPV)	Total Cost	Social Security Contributions as % of Total Costs	Social Security Contributions (% Wage)
		(1)	(2)	(3)	(4)	(1)+(2)+(3)+(4)		
Belgium	1999	1.73	0.00	0.00	40.17	41.89	95.87%	0.31
Canada	1999	0.60	0.19	0.00	18.56	19.35	95.93%	0.14
Finland	1999	1.61	0.00	0.00	35.62	37.23	95.67%	0.27
France	1999	0.98	0.36	0.00	64.77	66.11	97.97%	0.50
Germany	1999	1.14	0.00	0.00	53.48	54.63	97.91%	0.41
Ireland	1999	0.45	0.58	0.00	24.67	25.70	95.99%	0.19
Italy	1999	0.60	2.63	0.00	91.53	94.76	96.60%	0.71
Japan	1999	0.59	0.00	0.00	36.36	36.95	98.40%	0.28
Korea	1999	0.59	2.99	0.00	18.08	21.66	83.49%	0.14
Netherlands	1999	0.88	0.00	0.00	84.99	85.87	98.97%	0.65
New Zealand	1999	0.22	0.00	0.00	0.00	0.22	0.00%	0.00
Poland	1999	1.22	0.00	0.00	60.48	61.70	98.02%	0.47
Portugal	1999	1.18	3.30	0.00	49.01	53.49	91.63%	0.38
Spain	1999	0.59	2.58	0.00	49.43	52.60	93.98%	0.38
Sweden	1999	1.79	0.00	0.00	28.86	30.65	94.16%	0.22
Turkey	1999	0.99	2.99	0.00	44.79	48.76	91.85%	0.35
United Kingdom	1999	0.71	0.72	0.00	28.82	30.25	95.27%	0.22
United States	1999	0.00	0.00	0.00	23.56	23.56	100.00%	0.18
Average OECD	1999	0.89	0.82	0.00	40.55	42.25	95.97%	0.31

Continued

Country	Year	Advance Notice	Indemnities for dismissal	Seniority Pay	Social Security Contributions (EPV)	Total Cost	Social Security Contributions as % of Total Costs	Social Security Contributions (% Wage)
		(1)	(2)	(3)	(4)	(1)+(2)+(3)+(4)		
Argentina	1999	0.80	2.20	0.00	44.49	47.48	93.69%	0.34
Bolivia	1999	1.77	2.99	0.00	31.16	35.91	86.76%	0.24
Brazil	1999	0.59	2.45	9.82	37.65	50.51	74.53%	0.29
Chile	1999	0.59	2.79	0.00	27.20	30.58	88.95%	0.21
Colombia	1999	0.30	3.49	9.82	38.75	52.35	74.01%	0.30
Costa Rica	1999	1.05	2.60	0.00	35.05	38.69	90.58%	0.27
Dominican Rep.	1999	0.59	2.16	0.00	16.23	18.97	85.52%	0.13
Ecuador	1999	0.59	3.30	9.82	22.85	36.56	62.50%	0.18
El Salvador	1999	0.06	2.99	0.00	27.26	30.31	89.94%	0.21
Honduras	1999	0.59	2.94	0.00	13.63	17.16	79.43%	0.11
Jamaica	1999	0.59	1.41	0.00	6.49	8.49	76.47%	0.05
Mexico	1999	0.59	2.57	0.00	29.50	32.66	90.33%	0.23
Nicaragua	1999	0.59	1.97	0.00	19.47	22.04	88.37%	0.15
Panama	1999	0.59	2.09	0.75	15.19	18.62	81.58%	0.12
Paraguay	1999	0.68	1.49	0.00	27.26	29.43	92.63%	0.21
Peru	1999	0.00	3.80	9.82	27.26	40.88	66.69%	0.21
Trinidad & Tobago	1999	1.18	1.33	0.00	10.90	13.41	81.31%	0.08
Uruguay	1999	0.00	2.23	0.00	52.58	54.81	95.93%	0.41
Venezuela	1999	0.93	2.03	5.97	18.43	27.36	67.37%	0.14
Avg. Latin America		0.63	2.46	2.42	26.39	31.91	82.45%	0.20

Source: Authors' calculations based on OECD (1999), Grubbs and Wells (1993), US Social Security Administration and Ministries of Labor in Latin America and the Caribbean

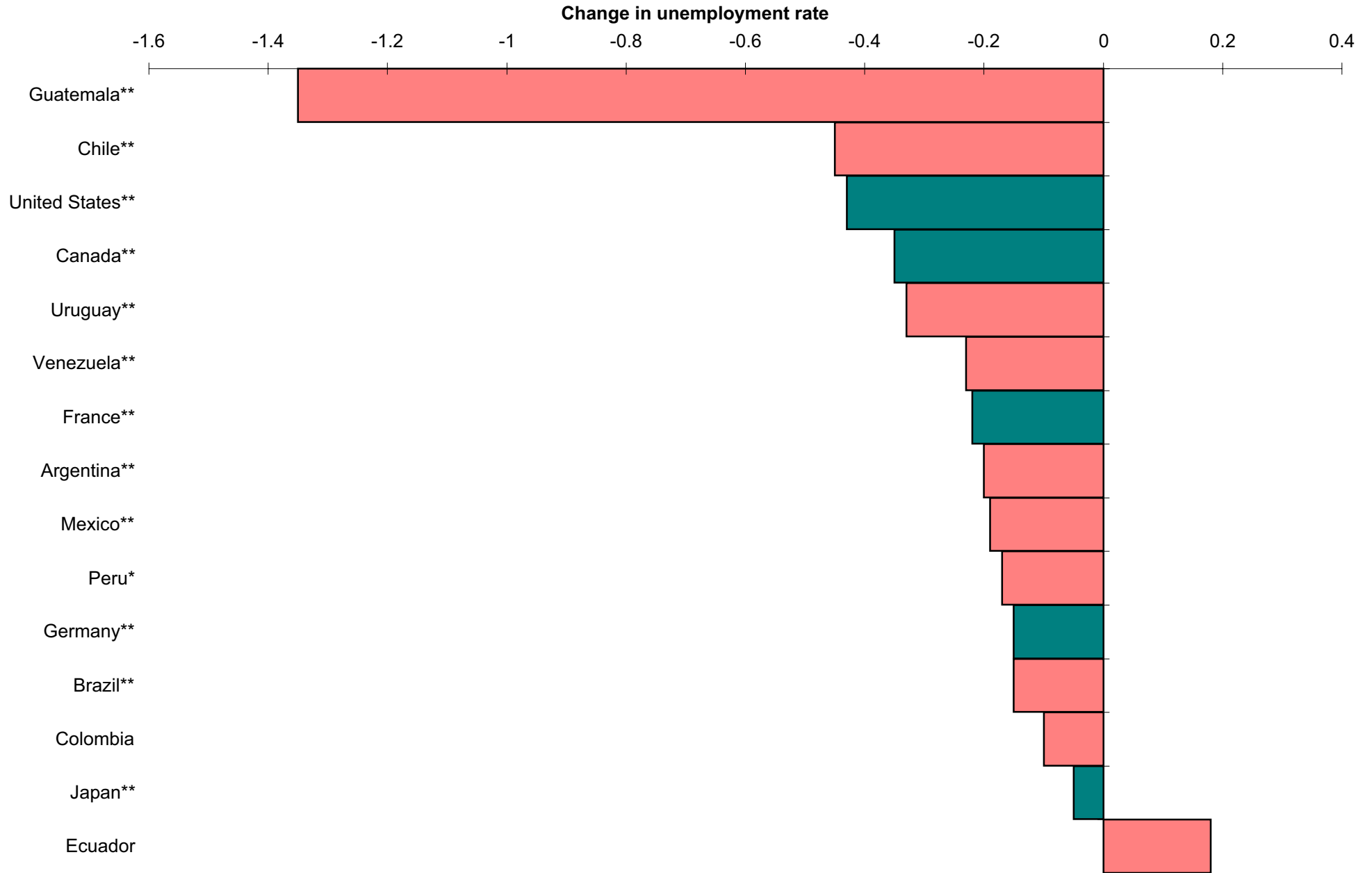
The Cost of Job Security. End of the eighties relative to end of nineties



Source: Ministries of Labor of Latin America and the Caribbean

Cost of Job security includes advance notice+Indemnities for dismissal +Seniority Pay

Unemployment Response to GDP Growth



Note: * or ** indicate the coefficient is significant at the 5 or 1 percent level, respectively. Only countries for which unemployment data is available for at least 10 years are included.

Source: *Economic and Social Progress in Latin America: 1996 Report. Special Section: Making Social Services Work.* The Inter-American Development Bank. Washington, D.C.: Johns Hopkins University Press. 1996.

Estimates of Wage-Pass through of *SS*

	Whole Sample	OECD Sample	Latin American Sample
$\frac{\partial \ln Emp}{\partial \ln SS}$ (Employment)	-0.702	-1.048	-0.447
$\frac{\partial \ln w}{\partial \ln SS}$ (Wage)	0	0	[0,-0.36]

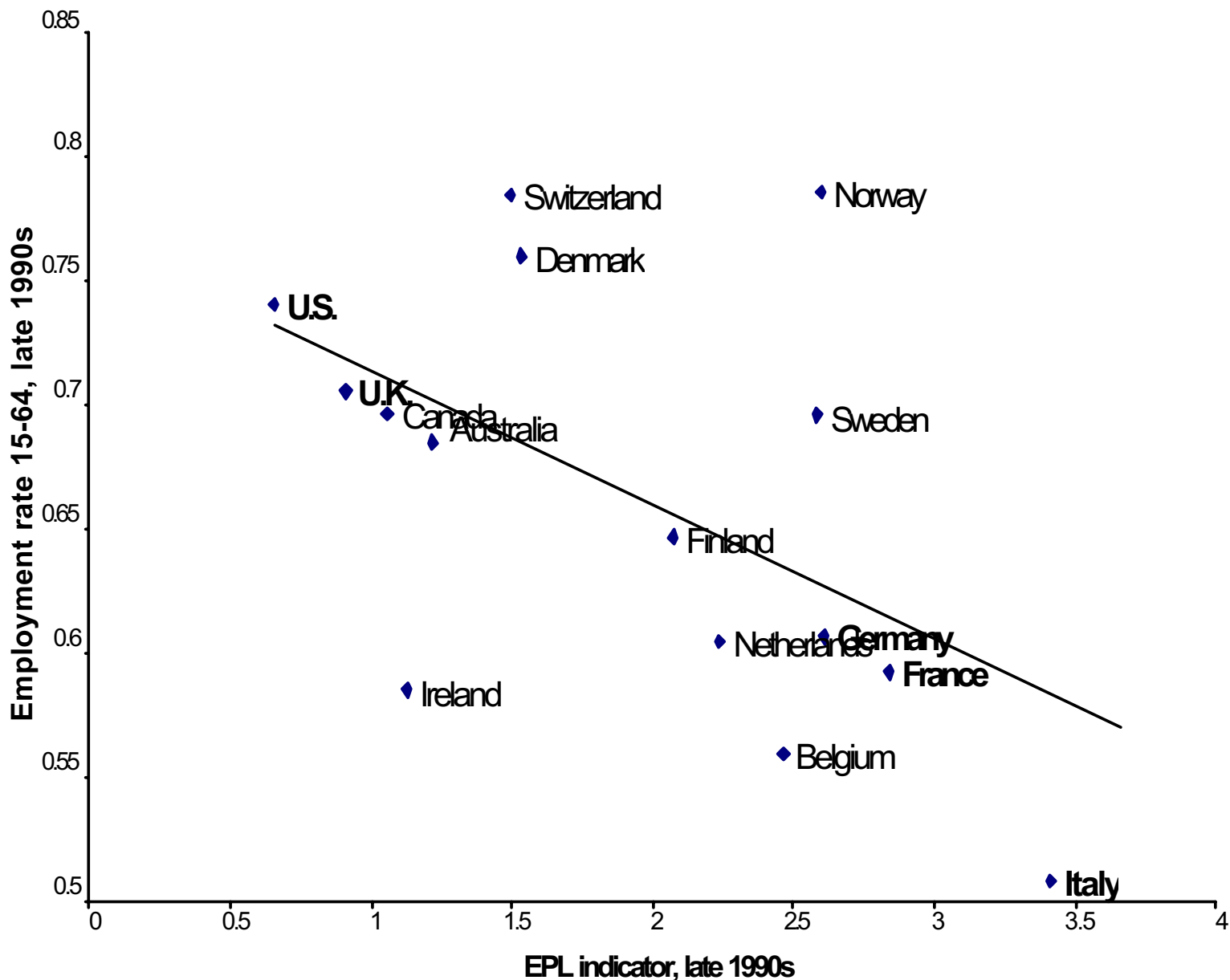
$\frac{\partial \ln Emp}{\partial \ln SS}$ is obtained from a specification in which the dependent variable is computed in logs and social security contributions are defined as % of gross wages. The labor demand elasticity is assumed to be within the ranges reported by Hammermesh (1993) that is between -0.15 and -0.7.

Source: Heckman and Pagés (2003)

5. Regulation Reduces Labor Mobility;
Deregulation Raises Mobility and
Flexibility.

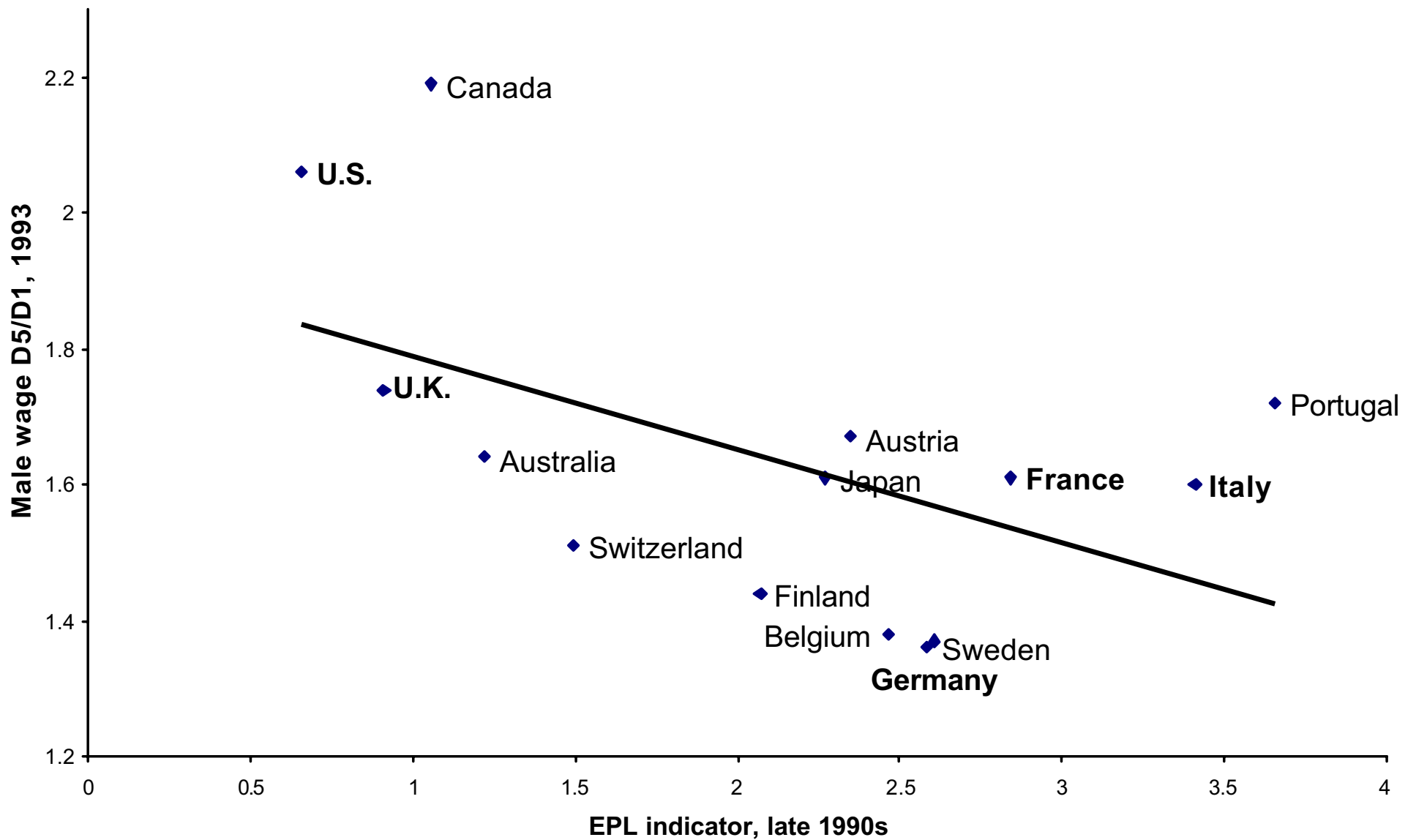
6. Regulation Reduces Employment Overall But Raises Employment for Protected Workers.

Overall Employment and Labor Market Regulation



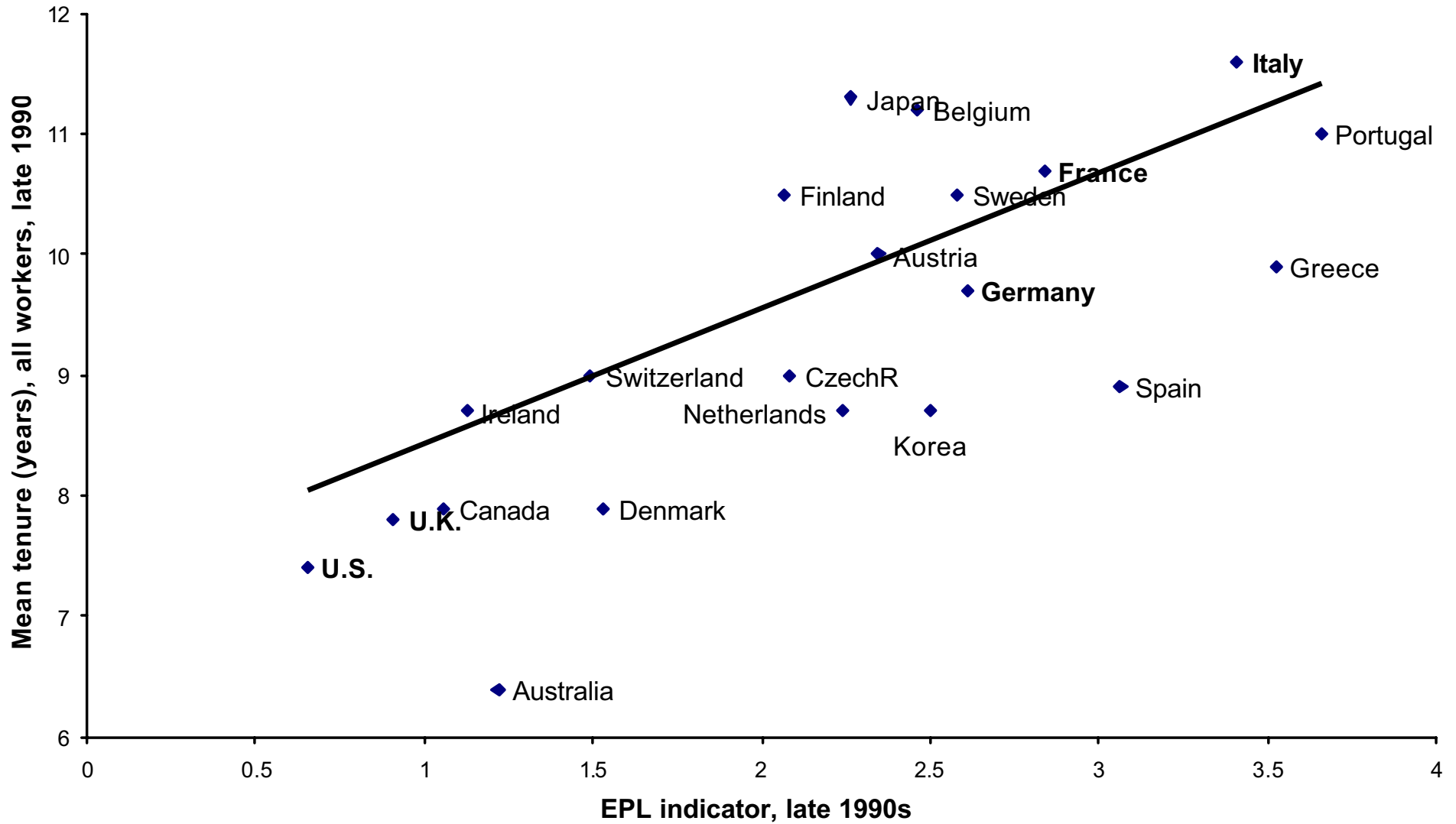
Source: Bertola, Giuseppe. (2001) "Aggregate and Disaggregate Aspects of Employment and Unemployment." Central Bank of Colombia Conference Paper.

Employment Protection Legislation and Wage Inequality



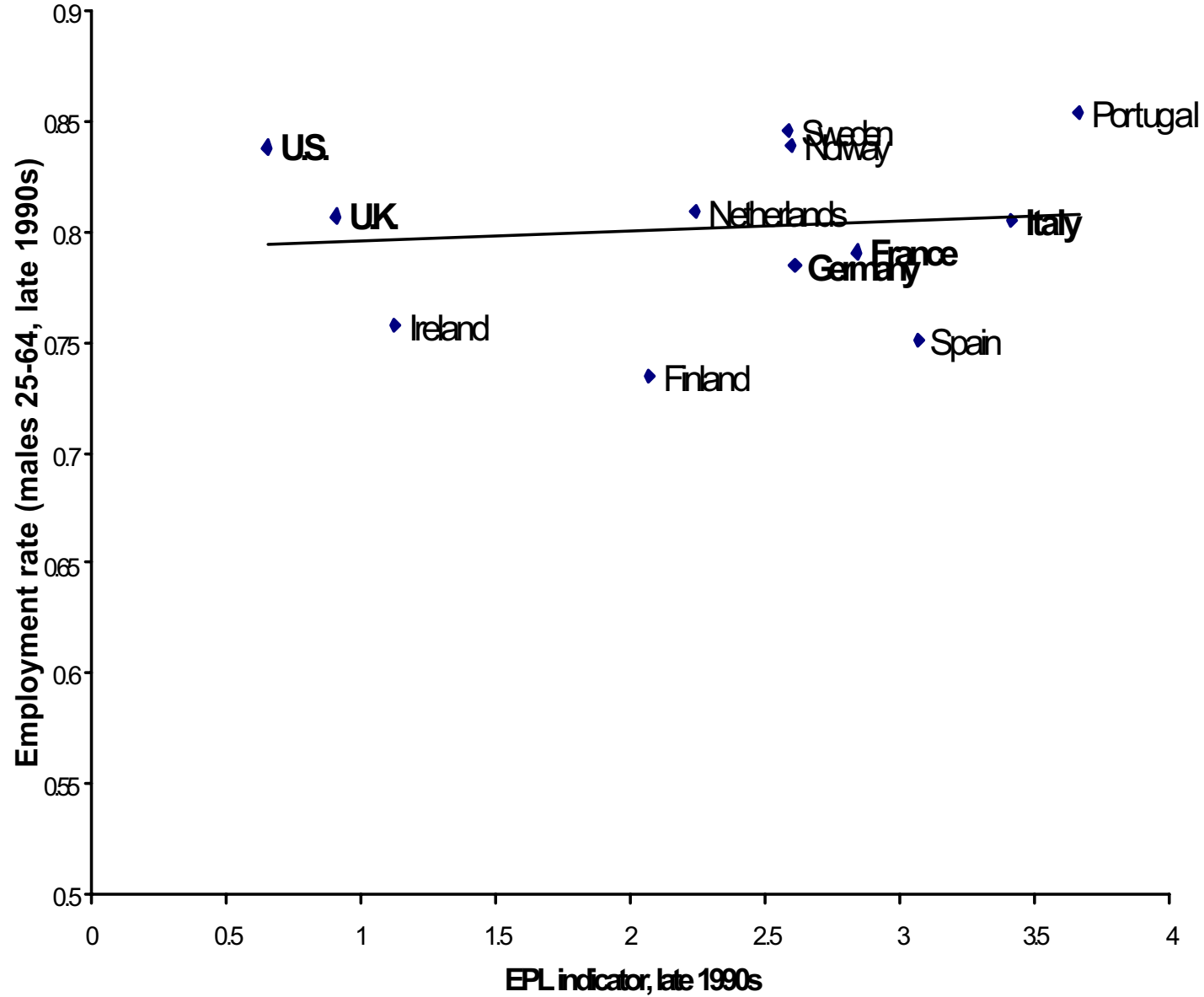
Source: Bertola, Giuseppe. (2001) "Aggregate and Disaggregate Aspects of Employment and Unemployment." Central Bank of Colombia Conference Paper.

Employment Protection Legislation and Tenure Length



Source: Bertola, Giuseppe. (2001) "Aggregate and Disaggregate Aspects of Employment and Unemployment." Central Bank of Colombia Conference Paper.

Male Adult Employment and Labor Market Regulation



Source: Bertola, Giuseppe. (2001) "Aggregate and Disaggregate Aspects of Employment and Unemployment." Central Bank of Colombia Conference Paper.

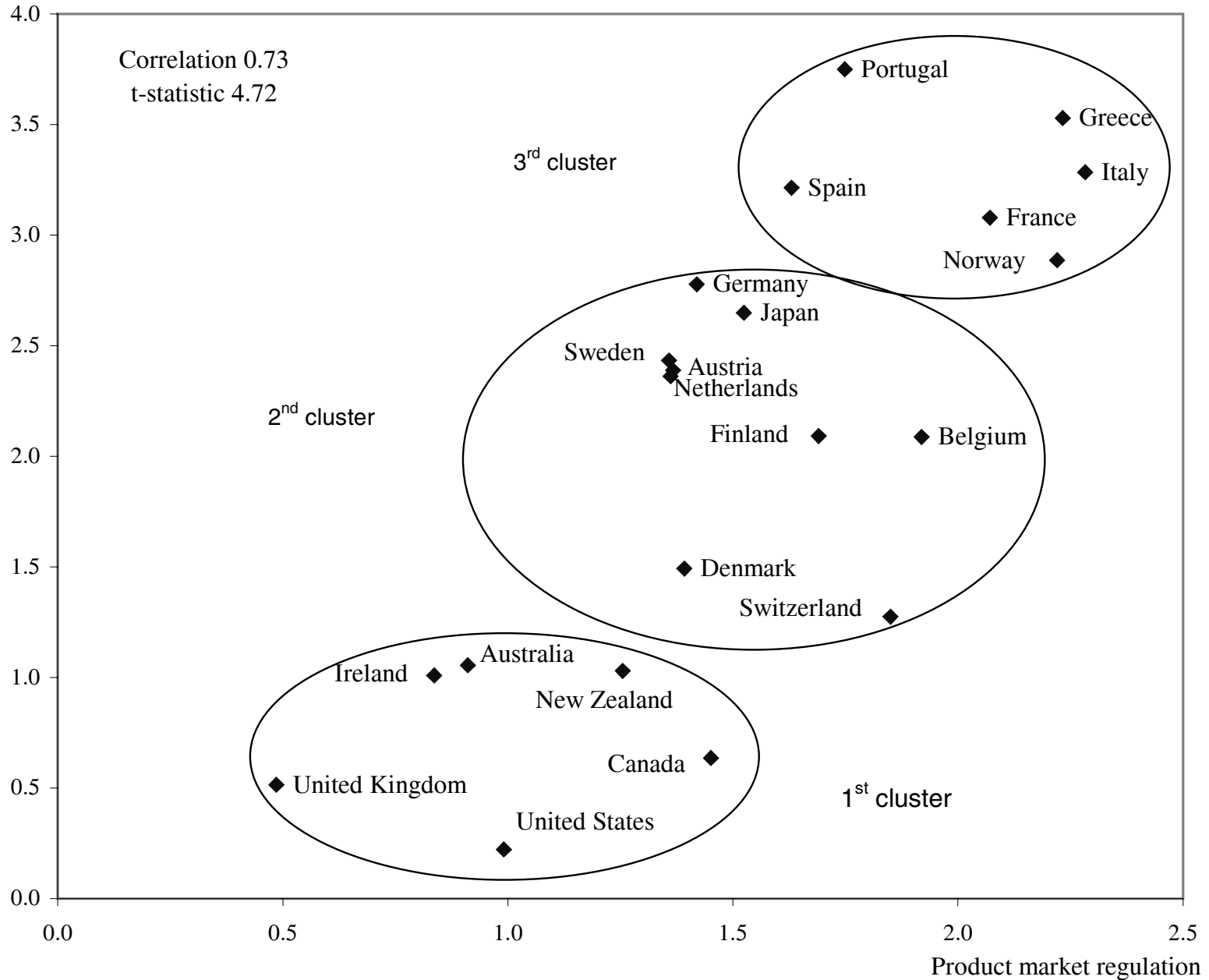
7. Product Market and Labor Market Regulation Highly Correlated.

- a) Reduces Innovation
- b) Reduces Entry of Firms
- c) Impairs Adaptation of Technology

- d) Reforms Have Greatest Effects in Countries Farthest Behind the Technology Frontier.
- e) Regulation Affects Productivity Growth (TFP or MFP). Retards Adaptation of New Technology.

Product market regulation and employment protection legislation

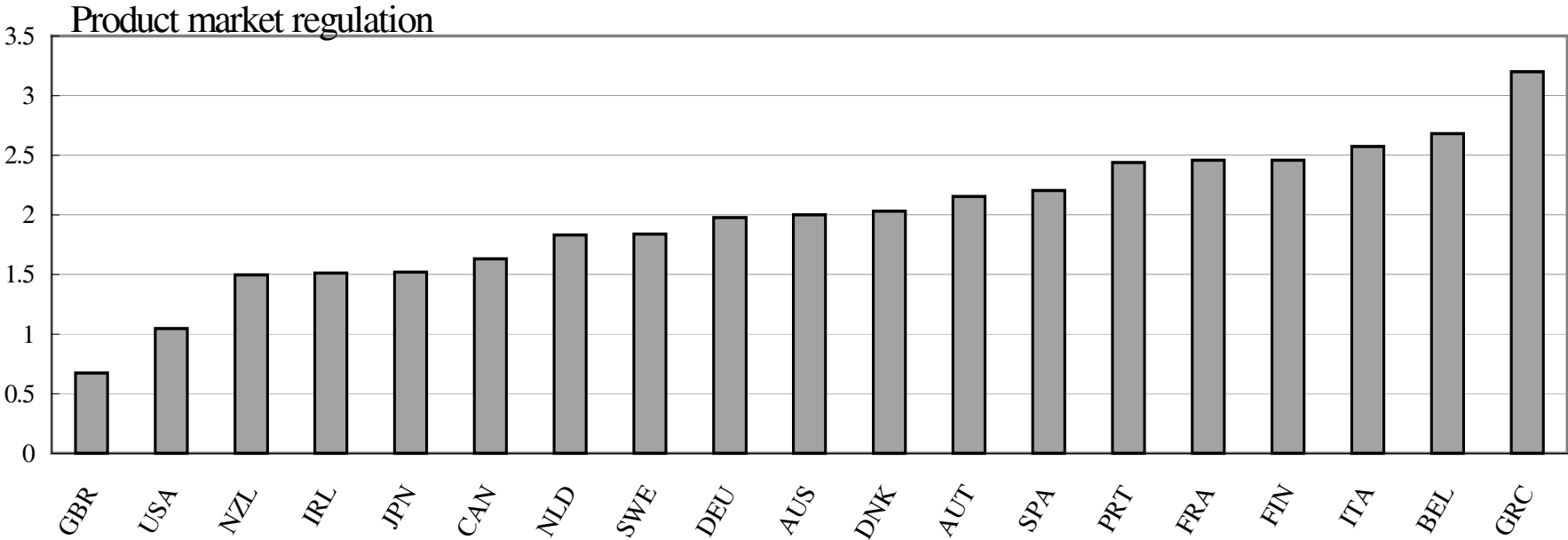
Employment protection legislation



1. The scale of indicators is 0-6 from least to most restrictive

Source: Nicoletti, Giuseppe and Stefano Scarpetta. (2001). "Interactions Between Product and Labour Market Regulations: Do They Affect Employment? Evidence from OECD Countries." Presented at Banco de Portugal Conference on "Labour Market Institutions and Economic Outcomes", June 3-4, 2001.

Overall indicator of product market regulation¹



1. Factor analysis applied to summary indicators of state control, barriers to entrepreneurial activity and barriers to trade and investment.

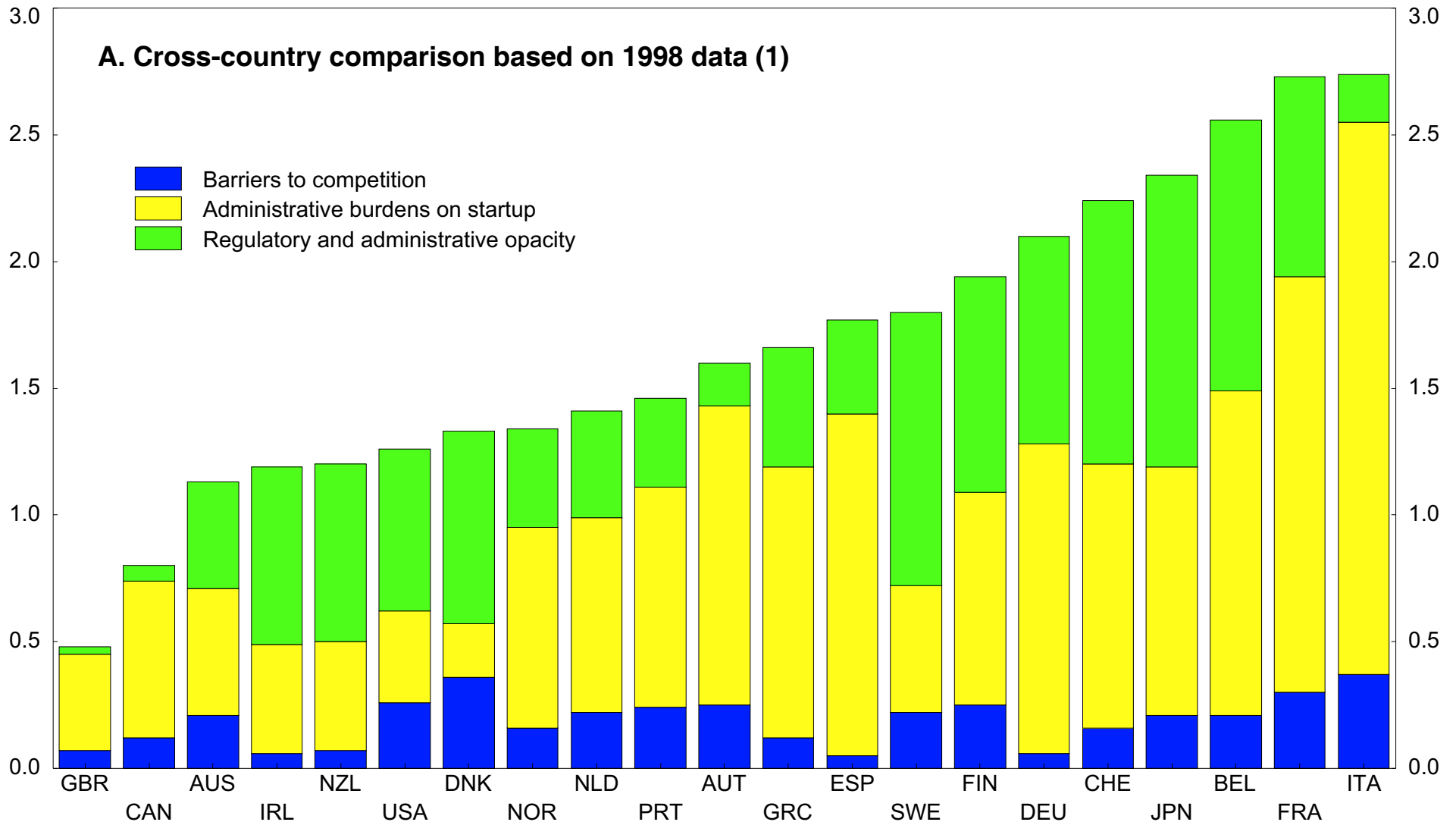
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Regulation of Business Formation and Protection of Investors in Advanced OECD Countries (Source: Freeman, R.B, 2001)

	<u>Business Formation</u>			<u>Protection of Investors</u> (higher= better)		
	# Procedures required	Days to get Approval	Cost/GDP Per Capita	Rule of Law	Anti-Director Rights	Creditor Rights
Australia	3	3	.0209	10	4	1
Austria	12	154	.4545	10	2	3
Belgium	8	42	.1001	10	0	2
Canada	2	2	.0140	10	4	1
Denmark	5	21	.0136	10	3	3
Finland	4	32	.0199	10	2	1
France	16	66	.1970	8.98	2	0
Germany	7	90	.0851	9.23	1	3
Greece	13	53	.4799	6.18	1	1
Ireland	4	25	.1145	7.80	3	1
Italy	11	121	.2474	8.33	0	2
Japan	11	50	.1144	8.98	3	2
Neth	8	77	.3031	10	2	2
N Zealand	3	17	.0042	10	4	3
Norway	6	24	.0249	10	3	2
Portugal	12	99	.3129	8.68	2	1
Spain	11	83	.1269	7.80	2	2
Sweden	4	17	.0254	10	2	2
Switzerland	12	88	.1336	10	1	1
United Kingdon	7	11	.0056	8.57	4	4
United States	4	7	.0096	10	5	1

Freeman, Richard B. (2001) "Institutional Differences and Economic Performance Among OECD Countries." Unpublished manuscript. Harvard University.

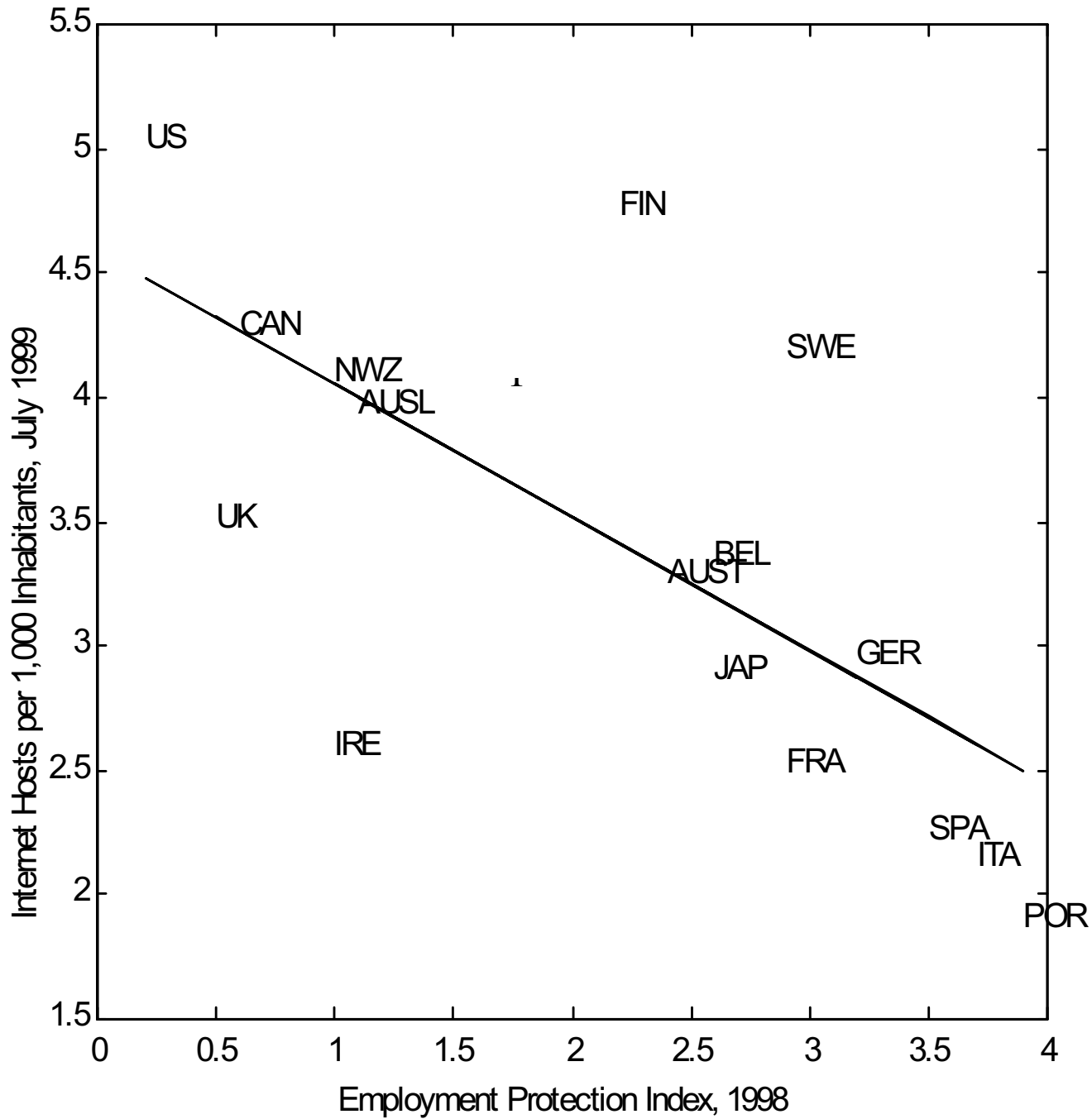
Barriers to entrepreneurship



Note: In most OECD countries for which data are available, administrative barriers are the biggest single barrier to setting up new business. Barriers to competition, which include price controls and antitrust exemptions played less of a role in all countries.

1. Year 1998 indicators are based on available comparative information and on information provided by Member countries through a survey conducted in March 1998. The scale of indicators is 0-6, from least to most restrictive. The components are weighted to show their relative importance in the overall indicator. Since 1998, many countries have implemented reforms.

Internet Usage and Employment Protection

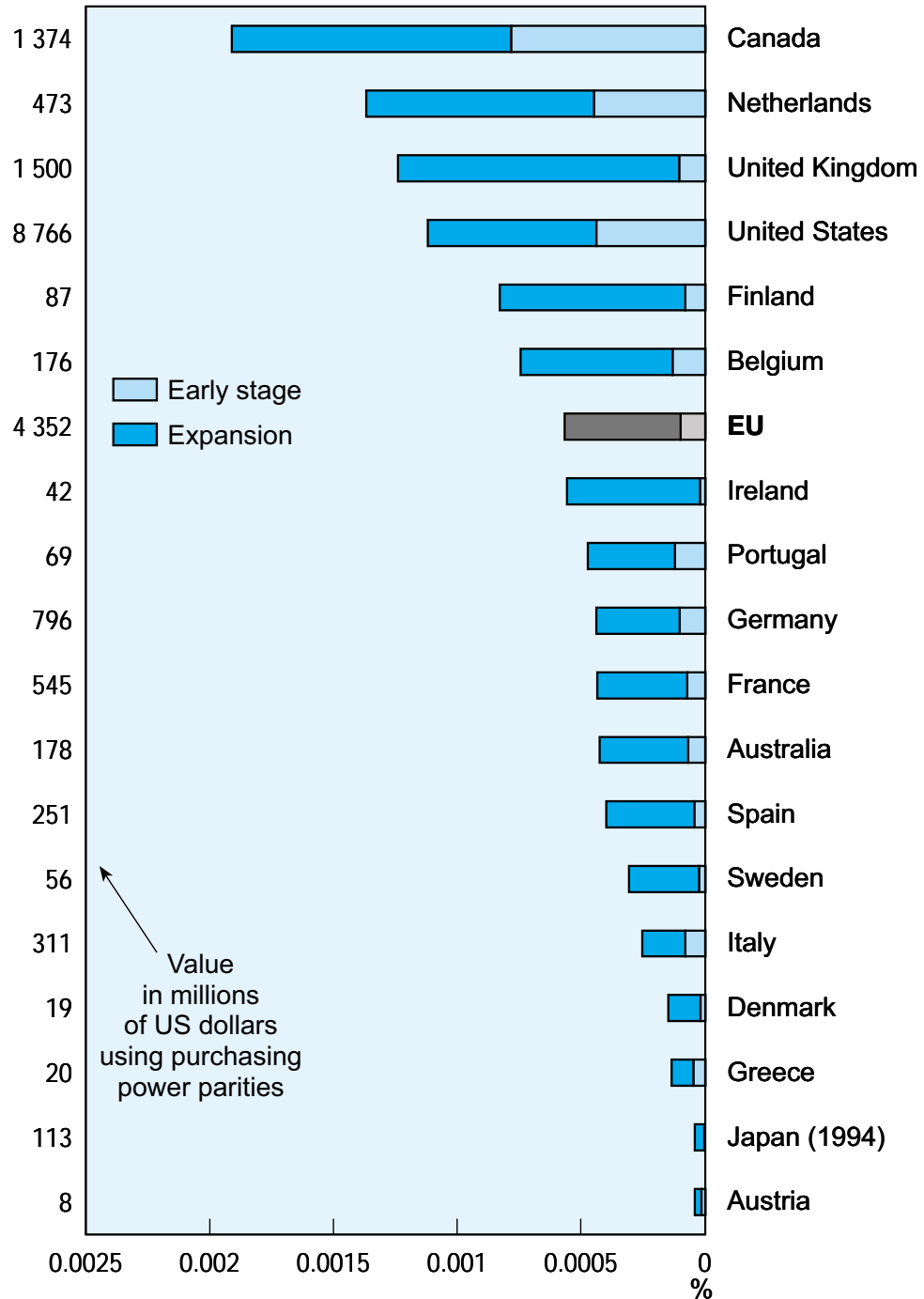


Source: Samaniego, Roberto. (2001) "Does Unemployment Protection Inhibit Technology Diffusion." Unpublished manuscript. University of Pennsylvania.

Venture capital

Investment in venture capital as a percentage of GDP

1997



Source: OECD, based on data from European Venture Capital Association; MITI (Japan); CVCA (Canada); NVCA (United States).

8. Reforms That Change Product Market and Labor Market More Effective:
Imbue a Sense of Competition; Exploit Complementarities.

a) New Zealand

b) Chile

c) Britain

9. Piecemeal Reforms Much Less Likely To Be Effective.

III. The Inequality Argument Revisited

1. Current Regulatory Systems in Many OECD Economies and Many Less Developed Economies Provide Inadequate Insurance and are Inefficient.















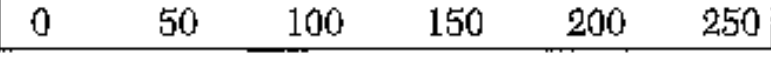


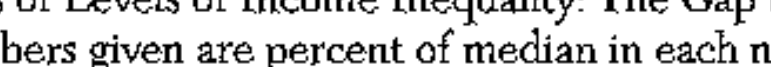
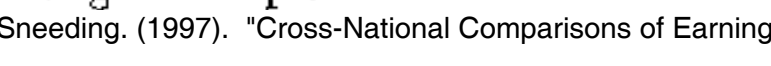
They Exclude People, Create Inequality and Reduce Competitiveness.

2. Lifetime Inequality Raised.
3. Provide a Social Safety Net for the Few at a Cost to the Many.

4. Regulation Gives Rise to Evasion.

- a) Erodes the Tax Base that Could Support Investment in Education.
- b) Creates a Culture of Illegality.
- c) Retards Investment Incentives.

5. In Long Run, Reforms Reduce Poverty by Promoting Growth.

	Low ^b (P10)	Length of bars represents the gap between high and low income individuals	High ^c (P90)	Ratio of High to Low ^d (Decile Ratio)	Gini Coefficient ^e
Finland 1991	58		158	2.74	0.227
Sweden 1992	57		159	2.78	0.229
Belgium 1992	58		163	2.79	0.230
Norway 1991	56		158	2.80	0.230
Denmark 1992	54		155	2.86	0.239
Austria 1987 ^f	56		163	2.89	0.227
Luxembourg 1985	59		174	2.95	0.238
Germany 1984	57		171	3.01	0.249
The Netherlands 1991	57		173	3.05	0.268
Italy 1991	56		176	3.14	0.255
Switzerland 1982	54		185	3.43	0.311
France 1984	55		193	3.48	0.294
Canada 1991	47		183	3.90	0.285
Spain 1990	49		198	4.02	0.306
Israel 1992	50		205	4.12	0.305
Ireland 1987	50		209	4.23	0.328
Australia 1989/90	45		193	4.30	0.308
United Kingdom 1991	44		206	4.67	0.335
United States 1991	36		208	5.78	0.350
Table 1	53		180	3.52	0.274

Comparisons of Levels of Income Inequality: The Gap between Low and High Income^a
Individuals (numbers given are percent of median in each nation and Gini coefficient)

Source: Gottschalk, Peter and Timothy M. Sneeding. (1997). "Cross-National Comparisons of Earnings and Income Inequality." Journal of Economic Literature. 34(2): 633-687.

6. Reforms of Labor and Product Markets Typically Increase Inequality and Unemployment in the Short Run.
 - a) Need Political Will.
 - b) Makes it Difficult for Democracies to Reform.
 - c) Most Reforms Come When Country Is In Crisis.

- d) Can This Be Avoided? Education and Leadership.
- e) In East Asia, It is Important to Resist Bad Arguments About Importing Western Institutions to Provide Social Insurance. Policies That Should Be Implemented Should Promote Mobility and Flexibility, Such As Private Pension Accounts Fully Vested in Workers Operating in Environments With Flexible Wages.
- f) **Most Important, Dynamism is Needed At All Levels of Society: A True Spirit of Competition At All Levels of Society.**