

EMPLOYMENT AND LABOR ISSUES

Unemployment,
Youth Employment
and Child Labor



Lance K. Valencia
Bryson J. Hahn
Editors

ECONOMIC ISSUES, PROBLEMS AND PERSPECTIVES

NOVA

ECONOMIC ISSUES, PROBLEMS AND PERSPECTIVES

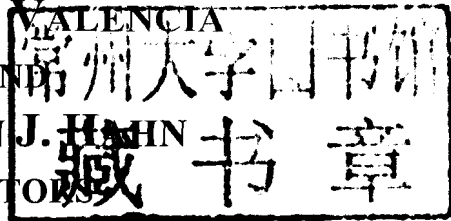
**EMPLOYMENT AND LABOR ISSUES:
UNEMPLOYMENT, YOUTH
EMPLOYMENT AND CHILD LABOR**

LANCE K. VALENCIA

AND

BRYSON J. HAHN

EDITORS



Nova Science Publishers, Inc.

New York

Copyright © 2010 by Nova Science Publishers, Inc.

All rights reserved. No part of this book may be reproduced, stored in a retrieval system or transmitted in any form or by any means: electronic, electrostatic, magnetic, tape, mechanical photocopying, recording or otherwise without the written permission of the Publisher.

For permission to use material from this book please contact us:

Telephone 631-231-7269; Fax 631-231-8175

Web Site: <http://www.novapublishers.com>

NOTICE TO THE READER

The Publisher has taken reasonable care in the preparation of this book, but makes no expressed or implied warranty of any kind and assumes no responsibility for any errors or omissions. No liability is assumed for incidental or consequential damages in connection with or arising out of information contained in this book. The Publisher shall not be liable for any special, consequential, or exemplary damages resulting, in whole or in part, from the readers' use of, or reliance upon, this material. Any parts of this book based on government reports are so indicated and copyright is claimed for those parts to the extent applicable to compilations of such works.

Independent verification should be sought for any data, advice or recommendations contained in this book. In addition, no responsibility is assumed by the publisher for any injury and/or damage to persons or property arising from any methods, products, instructions, ideas or otherwise contained in this publication.

This publication is designed to provide accurate and authoritative information with regard to the subject matter covered herein. It is sold with the clear understanding that the Publisher is not engaged in rendering legal or any other professional services. If legal or any other expert assistance is required, the services of a competent person should be sought. FROM A DECLARATION OF PARTICIPANTS JOINTLY ADOPTED BY A COMMITTEE OF THE AMERICAN BAR ASSOCIATION AND A COMMITTEE OF PUBLISHERS.

LIBRARY OF CONGRESS CATALOGING-IN-PUBLICATION DATA

Employment and labor issues : unemployment, youth employment, and child labor / editors, Lance K. Valencia and Bryson J. Hahn.

p. cm.

Includes index.

ISBN 978-1-60876-282-8 (hardcover)

1. Labor market--Developing countries--Case studies. 2. Youth--Employment--Developing countries--Case studies. 3. Child labor--Developing countries--Case studies. I. Valencia, Lance K. II. Hahn, Bryson J.

HD5706.E486 2009

331.3'1091724--dc22

2009048935

Published by Nova Science Publishers, Inc. ✦ New York

ECONOMIC ISSUES, PROBLEMS AND PERSPECTIVES

**EMPLOYMENT AND LABOR ISSUES:
UNEMPLOYMENT, YOUTH
EMPLOYMENT AND CHILD LABOR**

ECONOMIC ISSUES, PROBLEMS AND PERSPECTIVES

Trust, Globalisation and Market Expansion

*Jacques-Marie Aurifeille,
Christopher Medlin, and Clem Tisdell*
2009. ISBN: 978-1-60741-812-2

TARP in the Crosshairs: Accountability in the Troubled Asset Relief Program

Paul W. O'Byrne (Editor)
2009. ISBN: 978-1-60741-807-8
2009. ISBN: 978-1-60876-705-2 (E-book)

Government Interventions in Economic Emergencies

Pablo Sastre (Editor)
2010. ISBN: 978-1-60741-356-1

NAFTA Stock Markets: Dynamic Return and Volatility Linkages

*Giorgio Canarella, Stephen M. Miller
and Stephen K. Pollard*
2010. ISBN: 978-1-60876-498-3

Employment and Labor Issues: Unemployment, Youth Employment and Child Labor

*Lance K. Valencia and Bryson J. Hahn
(Editors)*
2010. ISBN: 978-1-60876-282-8

Cognitive Finance: Behavioral Strategies of Spending, Saving and Investing

Philipp Erik Otto
2010. ISBN: 978-1-60876-279-8

Economic Forecasting

Alan T. Molnar (Editor)
2010. ISBN: 978-1-60741-068-3

Lectures and Thoughts on Mineral Economics

K.K. Chatterjee
2010. ISBN: 978-1-60741-589-3

Issues in Economic Thought

*Miguel-Ángel Galindo Martín and
Cristina Nardi Spiller (Editors)*
2010. ISBN: 978-60876-173-9

Emerging Markets: Identification, New Developments and Investments

John V. Reynolds (Editor)
2010. ISBN: 978-1-61668-160-9
2010. ISBN: 978-1-61668-441-9 (E-book)

Understanding the Process of Economic Change in Turkey: An Institutional Approach

*Tamer Çetin and Feridum Yilmaz
(Editors)*
2010. ISBN: 978-1-60876-945-2

Entrepreneurship Incubators and Economic Growth.

**An Across-Countries Empirical
Analysis**
*Anastasia Petrou, Panagiotis Liargovas
and Irene Daskalopoulou*
2010. ISBN: 978-1-61668-260-6

The Impact of Foreign-Owned Companies on Host Economies

Maria C. Latorre
2010. ISBN: 978-1-61668-171-5
2010. ISBN: 978-1-61668-452-5 (E-book)

Labor and Employment Issues

Nickolas H. Mullen (Editor)

2010. ISBN: 978-1-60741-286-1

2010. ISBN: 978-1-61668-883-7 (E-book)

Minerals Price Increases and Volatility

Petro Martinovich (Editor)

2010. ISBN: 978-1-60741-653-1

**Household Behavior in the US
and Japan**

Kosei Fukuda

2010. ISBN: 978-1-60876-992-6

**Global Model Simulation: A Frontier of
Economic Science**

Akira Onishi

2010. ISBN: 978-1-60876-843-1

**Impact of Investments on an
Emerging Economy: Models and
Forecasts. The Case of Romania**

Cornelia Scutaru (Editor)

2010. ISBN: 978-1-60876-182-1

**Economics of Commodities and
Commodity Markets**

Alexander G. Tvalchrelidze

2010. ISBN: 978-1-61668-553-9

2010. ISBN: 978-1-61728-102-0 (E-book)

U.S. Productivity

Jackson B. Powell (Editor)

2010. ISBN: 978-1-60741-261-8

2010. ISBN: 978-1-61728-064-1 (E-book)

**International Perspectives on
Financial Market Supervision**

James P. Corrigan (Editor)

2010. ISBN: 978-1-61728-006-1

2010. ISBN: 978-1-61728-248-5 (E-book)

**Commercial Real Estate: Background
and Issues**

Kimberly C. Miller (Editor)

2010. ISBN: 978-1-61728-354-3

PREFACE

Unemployment is a considerable source of social distress, leading to loss of social contact and activity, increased isolation from others, increased family tensions and loss of self-esteem and self-confidence. This book gives a review of the results of follow-up studies and controlled psychological autopsy studies in terms of the association between unemployment and suicide. Furthermore, after three decades of market-oriented reforms along the Washington consensus, full employment has not yet been materialized in developing countries despite significant gains in fiscal and monetary discipline, and price stability. The current study analyzes the sources of structural transformation in the labor markets of developing countries after liberalization and structural adjustment programs using Turkey as a case study. The nature, causes, consequences and solutions of the problem of child labor in Turkish context is examined as well. This book also explores the effects of liberalization programs on labor market flexibility, distribution, wage-productivity link, and gender division in labor markets. Moreover, in the UK, participation in higher education has risen over the past two decades, along with a shift of the costs of higher education onto the individual. This book examines the role of term-time employment on UK higher education students. Also discussed in this book is the evidence concerning the "boy crisis" - the claim that the most recent generation of men are acquiring less education than women. The causes of and consequences for racial, ethnic and gender gaps in educational attainment are also explored. Other chapters discuss youth in substance abuse treatment and how treatment agencies may play a large role in transitioning youth to the workforce. How youths and adults with disabilities can maximize their potential for success in the post-secondary workplace is examined as well.

Chapter 1 - After three decades of market-oriented reforms along the Washington consensus, full employment has not yet been materialized in developing countries despite significant gains in fiscal and monetary discipline, and price stability. The current study analyzes the sources of structural transformation in the labor markets of developing countries after liberalization and structural adjustment programs using Turkey as a case study. The authors argue that the experience of Turkey as a major developing country with almost three decades of liberalization experience is not unique and can help determine the causes of disappointing labor market performances observed in other countries. In exploring the sources of sluggish employment creation major attention is given to liberalization, fixed capital accumulation, growth and labor market interaction. The paper also explores the effects of

liberalization programs on labor market flexibility, distribution, wage-productivity link, and gender divisions in labor markets.

Chapter 2 - In the UK, participation in higher education has risen over the past two decades, along with a shift of the costs of higher education onto the individual and a move to widening participation among previously underrepresented groups. This has led to changes in the way individuals fund their higher education, in particular a rise in the incidence of term time employment. Term time employment potentially plays a much bigger role than in the past, both as a means for individuals to fund their education and reduce debt, and as a way to gain valuable work experience and increase employability. With the increase in the number of graduates in the UK labour market it is now more important for individuals to be able to differentiate themselves in the labour market.

The authors investigate the impact of term-time employment on degree performance and labour market outcomes. The authors use primary data collected via an undergraduate survey undertaken at a medium-sized research-intensive UK university. Based on a sample of 678 graduates, who graduated in 2006 or 2007, they examine the incidence, frequency, motivation for and effects of working during term time. The main conclusions are that for many students the primary reason for working is financial, rather than to increase employability. Term time employment has a negative impact on academic achievement for those working for financial necessity, with potential knock-on effects on their labour market outcomes. However, some of our survey respondents reported positive effects of term time employment, such as general work experience, transferable skills and better time management. The authors also find some evidence that those who have undertaken employment for work experience reasons achieve higher wages in the labour market upon graduation.

Chapter 3 - In this paper the authors examine the relationship among the household structure, educational level, gender, and the out-migration of labor for employment from typical South Asian villages of Nepal. Applying exploratory data analysis and probit regression to the household level primary survey data, the authors conclude that male members in the families in all ecological regions dominate the migration flows. More specifically, 21-30 years of age group population is prone to migrate; whereas 11-20 years age group and women population have negative relation to the migration of labor. Furthermore, those village labors who have acquired higher schooling reveal the tendency to migrate to the domestic destinations whereas those who have acquired professional training do emigrate. Purely agricultural households release more migrant labor. Due to the low agricultural productivity coupled with the lack of professional training they migrate to the domestic destinations. With regard to the family relations, first sons are likely to migrate followed by the first daughter. For emigration, second son also follows them. One person working member family have more emigrant labors but if the working members are affluent in the family, the tendency of emigration declines.

Chapter 4 - A large portion of the food service industry is staffed by college students. These workers handle, store, prepare, cook and serve food, as well as clean preparation, cooking, and serving areas. Due to the pivotal role of college students in this industry, their accurate knowledge regarding safe food practices and appropriate behaviors are important for preventing foodborne illnesses. Our research suggests that nearly all college-aged food service workers receive either informal or formal training regarding safe food practices. Food safety training is believed to be important because many persons enter the food service industry without extensive prior knowledge and experience. The authors assessed food safety

knowledge and behaviors among 314 college-aged food service workers. Results suggest these workers are reasonably informed of food safety issues and generally report engaging in safe food practices and avoiding unsafe food practices. Some important exceptions include working while ill and failure to report illnesses. Generally, our findings are quite complimentary of these workers' safe food practices and should provide satisfaction to those who hire and employ college students, as well as reassure customers who patronize food service establishments staffed by college students.

Chapter 5 - The transition from school-age youth to adult is potentially wrought with difficulties and obstacles for all young people, with adult employment being a highly valued sign of success in contemporary society. While all students are, in effect, being prepared for life beyond secondary education (e.g., college, trade schools, or the workplace), students with disabilities require additional strategic planning and intervention in order for the transition outcome to be as successful as possible. These additional needs are due, in part, to factors such as general misconceptions about individuals with disabilities, workplace discrimination, an increased likelihood of school-dropout, as well as contextual difficulties (e.g., poverty, fewer opportunities for employment for all citizens of certain locales, etc.). Further, some professionals feel that the focus on academic development (perhaps to the exclusion of other areas of functioning such as vocational development or life skills) through the No Child Left Behind Act of 2001, indicates a potential constriction of time resources and a need to augment opportunities for positive vocational supports and services (Wehman, 2006). In light of the difficulties encountered by these youths and the adults involved in their post-secondary transition, an explicit, proactive, empirically-supported, and well-planned approach must be utilized to maximize the potential for ultimate success in the post-secondary world.

The purpose of this chapter is threefold. First, the context of students with disabilities is discussed, including the definition of disability, federal laws pertaining to the school-to-work (STW) of youths with disabilities, as well as disparities encountered by individuals involved in the transition process. Second, the process of career assessment is briefly reviewed as a foundation to effective transitioning. Finally, best practices in both transition planning and transitioning are reviewed.

Chapter 6 - This paper examines the evidence concerning the "boy crisis"-the claim that the most recent generation of men are acquiring less education than women. Using data from the American Community Survey, the US Census, the National Center for Education Statistics, and the National Longitudinal Survey of Youth 1979, the authors compare differences in educational attainment by race, ethnicity and gender in different regions of the US. The authors show that concern over the gender gap is misplaced in that racial and ethnic differences in educational attainment are more severe. The authors discuss the causes of and consequences for racial, ethnic and gender gaps in educational attainment. The paper focuses on the growing importance of education on socio-economic status-e.g., employment rates, earnings and criminal behavior-and ties the differences in socio-economic status by education to the changing industrial and occupational structure of the US economy. The authors conclude with a discussion of public policy measures available to address racial, ethnic and gender educational attainment gaps.

Chapter 7 - About 20% of U.S. adolescents used an illicit drug in the past year, and about 25% of those admitted into substance abuse treatment facilities are under 19. Substance abuse treatment can be a valuable intervention for adolescents who experience addiction, and the treatment environment may impact youths' attitudes toward school and employment. Little

academic work has addressed the educational and vocational preparation of adolescents who are in substance abuse treatment or these adolescents' concerns or future plans regarding employment. An exploratory study describes educational and employment experiences, plans, and goals in a sample of adolescents in substance abuse treatment. Qualitative interviews (N=28) at four substance abuse treatment agencies in two U.S. states addressed past adolescents' academic achievement, future employment and academic goals, employment interests, vocational and academic training from the treatment agency, and employment opportunities and obstacles. Most adolescents reported prior and continuing academic challenges (including learning disabilities), ongoing mental or medical health problems, and juvenile justice involvement. Many youth also reported sparse school attendance and little career counseling prior to starting substance abuse treatment, and they anticipated challenges staying sober after treatment. Youth in substance abuse treatment reported unique concerns about finding employment and achieving academic success after substance abuse treatment. These findings suggest that adolescents in substance abuse treatment may be under-prepared to join the workforce, and have substantial concerns and challenges to obtaining employment., but that they are receiving opportunities to obtain skills and adjust goals while in treatment. Substance abuse treatment agencies may play a large role in transitioning youth to the workforce, and policies that address academic and career skills could improve the employability of this vulnerable population.

Chapter 8 - There is no doubt that the Phillips curve continues to be of great importance for macroeconomic analysis, a fact which is evidenced by its central role in the recent theoretical and empirical literature and in the formulation of economic policy rules. The purpose of this chapter is to provide empirical evidence from the Greek economy after a brief examination of the theoretical basis of the Phillips curve. From a methodological point of view, the authors test a variety of models regarding their suitability to model the Phillips curve as a negative trade-off relationship between inflation and unemployment in Greece over the 1980-2000 time span. The results of the empirical investigation show that there is a systematic and statistically significant relationship between inflation and unemployment in the Greek economy only over the time period 1990-2000, but not over the 1980-1990 time span. In other words, our findings support the idea that the reduced form approach to the Phillips curve based on a single equation is unsatisfactory for the case of Greece and can lead to confusing and contradictory results. Obviously, future and more extended research on the subject would be of great interest.

Chapter 9 - Unemployment is a considerable source of social distress, leading to loss of social contact and activity, increased isolation from others, increased family tensions, and loss of self-esteem and self-confidence. There is a clue for a relationship between unemployment and suicide on the aggregated level; however, a strong association between unemployment and suicide has been found on the individual level, although there is an ongoing discussion about the causality of the relationship between unemployment and suicide and there are several explanations for the association between unemployment and suicide. This article is to give a short overview of the results of follow-up studies and controlled psychological autopsy studies in terms of the association between unemployment and suicide. Furthermore, potential methodological limitations of these studies will be presented; e. g., there are several factors on the pathway between unemployment and suicide such as mental disorders or social isolation. Nevertheless, there is an association between unemployment and increased mortality from suicide. This finding has relevance for public health and therefore for policy

decisions. As the economic situation and economic policy decisions might have a tremendous psychological and social impact on a population, the negative consequences of unemployment should be considered early enough by governments and counteracted, e. g. with public health programs.

Chapter 10 - The present study aims to examine the nature, causes, consequences and solutions of the problem of child labor in Turkish context. Child labor in Turkey is an inextricable part of wider social issues mostly interrelated demographic, socio-economic and cultural factors. The State Statistical Institute estimated that 5.9 percent of children in the age group of 6- 17 engaged in an economic activity in 2006. Children are found working in the home, in agriculture, on the streets, as apprentices and blue-collar workers in small establishments and in service and entertainment. Employment is detrimental to children's physical, mental, social and emotional development as well as human capital formation of the society. By elaborating a clear framework of the elements and dimensions of a solution, the Turkish Government has been able to achieve much towards the elimination of child labor in last two decades. The reduction of child labor can be attributed to the combination of integral changes created in socio-economic context which included extension of compulsory education to eight years and policy environment favorable to the elimination of child labor as well as enhanced awareness and capacity developed in cooperation with international organizations and the Turkish Government. Despite the effective policies and practices developed and implemented in dealing with child labor issues, Turkey is still far from complying with international standards with regard to elimination of child labor.

Chapter 11 - It is well established that U.S. business cycles have moderated since the mid 1980s, which include a decline in the volatility of hours and of the unemployment rate. This chapter applies a battery of tests to a Real Business Cycle (RBC) framework to dissect the effect of greater international integration, financial frictions, and better monetary policy on the dynamics of labor hours. While some of these factors have been identified in the literature as causes of the 'Great Moderation', a model-based comprehensive assessment of their relative importance, as the one presented in this chapter, is novel and sheds light into the policies that aid towards a smoother functioning of the labor market.

CONTENTS

Preface		vii
Chapter 1	Labor Market Performance after Structural Adjustment in Developing Countries: The Interesting but not so Unique Case of Turkey <i>Firat Demir and Nilgün Erdem</i>	1
Chapter 2	The Effect of Term-Time Employment on UK Higher Education Students <i>Sarah Jewell, Alessandra Faggian and Zella King</i>	39
Chapter 3	Determinants of the Migration Flows from Nepalese Villages <i>Sanjaya Acharya and Etsuo Yoshino</i>	69
Chapter 4	College-Aged Food Service Workers: Knowledge and Behaviors Regarding Safe Food Practices <i>Kevin R. Betts and Verlin B. Hinsz</i>	89
Chapter 5	The Employment of Youths with Disabilities: Disparities, Preparation, and Effective Transitioning to the Community Workplace <i>James W. Crosby, Kayce G. Knaup and Matt Vassar</i>	109
Chapter 6	The “Boy Crisis” and the Socioeconomic Status of Young Adults <i>Sonia Dalmia, Aaron Lowen and Paul Sicilian</i>	125
Chapter 7	Adolescents in Residential Substance Abuse Treatment: Goals for Education and Employment after Treatment <i>Jacob S. Hyman, Michele Nacht and Jennifer P. Wisdom</i>	147
Chapter 8	The Weak Foundations of the Phillips Curve: Empirical (Non-) Evidence from Greece <i>Panayotis G. Michaelides and George Economakis</i>	159
Chapter 9	Unemployment and Completed Suicide <i>Barbara Schneider and Kristin Denise Grebner</i>	169

Chapter 10	Child Labor in Turkey: Causes and Consequences <i>Cennet Engin-Demir</i>	175
Chapter 11	Labor Hours, Employment, and "The Great Moderation" <i>Luis San Vicente Portes</i>	205
Index		217

Chapter 1

LABOR MARKET PERFORMANCE AFTER STRUCTURAL ADJUSTMENT IN DEVELOPING COUNTRIES: THE INTERESTING BUT NOT SO UNIQUE CASE OF TURKEY

Fırat Demir^{1,*} and Nilgün Erdem^{2,*}

¹Department of Economics, University of Oklahoma,
Hester Hall, Norman, OK USA

²Department of Public Finance, Faculty of Political Sciences,
Ankara University, Cebeci, Ankara, Turkey

ABSTRACT

After three decades of market-oriented reforms along the Washington consensus, full employment has not yet been materialized in developing countries despite significant gains in fiscal and monetary discipline, and price stability. The current study analyzes the sources of structural transformation in the labor markets of developing countries after liberalization and structural adjustment programs using Turkey as a case study. We argue that the experience of Turkey as a major developing country with almost three decades of liberalization experience is not unique and can help determine the causes of disappointing labor market performances observed in other countries. In exploring the sources of sluggish employment creation major attention is given to liberalization, fixed capital accumulation, growth and labor market interaction. The paper also explores the effects of liberalization programs on labor market flexibility, distribution, wage-productivity link, and gender divisions in labor markets.

* Corresponding author: E-mail: fdemir@ou.edu, Tel: 1-405-325-5844. For financial support, the author would like to thank the Research Council, and the College of Arts and Sciences at the University of Oklahoma.

* E-mail: erdem@politics.ankara.edu.tr , Tel: 90-312- 595-1375

INTRODUCTION

Starting from early 1980s developing countries have accelerated their efforts to integrate their goods and financial markets with those of developed countries. Based on the assumption that free flow of goods and capital and the inherent efficiency and self-regulating capacity of free markets inevitably generate the most optimal allocation of resources, economic policies adopted around the world have become standardized, although with considerable costs in many cases. After almost three decades of this liberalization process, the performances of developing countries exhibit some common traits in terms of *success* achieved in the end that are yet unlike those predicted by their architects.

Given the inward oriented economic structure of most developing countries with a heavy public sector presence both in the production and organization of market activities, the ambitious program of liberalizing goods and capital markets and opening them to global competition was expected to bring about macro stability, enhance business confidence to invest in productive sectors and generate new employment opportunities, and stimulate growth. In retrospect, however, it has become extremely difficult to call the reforming countries as success stories especially with regard to capital accumulation, growth, labor market performance and macroeconomic stability. In this respect, as can also be seen from the Post-Washington consensus debate, there is a growing controversy among economists on the underlying reasons behind the dramatic gap between the expected gains from market led outward oriented growth path and the depressing results that have been achieved so far. The point of departure is whether the *disappointing performances* are because of: domestic policy failures, timing and sequencing mistakes, or the inherent difficulties and distortions created by the reforms themselves. A major source of contention is the fact that despite the exponential growth in capital flows (to the extent that the share of world annual foreign exchange transaction to world GDP increased from 2/1 in 1973 to 17/1 in 2007) fixed capital formation and income growth is slower in both developed and developing countries. Sluggish employment growth that has increasingly become disconnected from output growth is another striking feature of the post-liberalization era in many developing countries. After decades of market-oriented reforms along the Washington consensus, high growth and full employment have not yet been materialized despite achieving fiscal and monetary discipline and price stability. It is exactly at this point that labor market reforms through deregulation and increasing flexibility are put at the core of suggested policy solutions for recovering capital accumulation, low employment generation and growth. However, significant cuts in real wages and deregulation of labor markets have not yet lead to higher employment gains.

In this paper, we focus on the question of labor market reaction to neo-liberal liberalization and structural adjustment programs in developing countries using Turkey as a case study. We argue that the experience of Turkey as a major developing country with almost three decades of liberalization experience is not unique and can help determine the causes of disappointing labor market performances observed in other countries. Major attention will be given to capital accumulation, growth and labor market interaction as well as the sources of sluggish employment creation. Regarding the selection of Turkey, the choice was not random. Briefly, Turkey has not only been among the forerunners of trade and financial liberalization among developing countries starting from early 1980s, but also faced potential negative effects of financial liberalization first hand through two major financial

crises in 1994 and 2000-2001. During this period, the standard deviation of real GDP growth steadily increased from 3.5 in 1980-89 to 5.2 in 1990-1999, and to 6.1 between in 2000-2005. Moreover, the coefficient of variation of annual real Short-term Capital Inflows increased three-folds from 1982-1989 to 1990-2005.¹ Private firms, on the other hand, have continued to face credit rationing and been forced to finance their investments mostly from internal sources and short-term borrowing. As of 2007, the share of short-term debt in total debt of top 500 manufacturing firms was around 70% that made them more vulnerable to changes in expectations and macro fundamentals. Furthermore, while the share of manufactures exports exceeded 90% in 2008, we also observe a continuous decline in the share of manufacturing value added in GDP from around 22% during 1995-2001 to 17% during 2002-2007 with a low of 16.6 % in 2007, which is the lowest level since 1980. During this period, the manufactures sector share in total non-agricultural employment also declined from 28% in 1980 to less than 26% in 2008.

1. STRUCTURAL ADJUSTMENT, WASHINGTON CONSENSUS AND LABOR MARKET FLEXIBILITY

The adoption of Washington consensus and the accompanying liberalization of goods and capital markets led to increasing pressure on both developed and developing countries to deregulate their labor markets. The persistently high unemployment rates in Western Europe compared to the US also provided further support to the free labor market advocates who blamed the '*rigid*' labor market institutions for low employment generation. Labor market flexibility, as a result, increasingly became a central point of policy debates regarding the causes of high unemployment rates. As commonly understood, labor market flexibility refers to both wage flexibility (that is constrained by institutional factors including collective bargaining, minimum wage settings, unemployment benefits and non-wage labor costs including social security and insurance costs) and easiness with which employers can fire/hire upon demand (that is constrained by legal employment protections) (Taymaz and Ozler, 2004).

To be more specific, labor market flexibility includes both internal and external flexibility (Keller and Seifert, 2005: 307-308). Accordingly, internal flexibility includes: i) *Internal numerical flexibility*, which is the employer's ability to change the number of working hours in the face of fluctuations in capacity utilization; ii) *Internal functional flexibility*, which allows the employer to handle "changing output requirements by reorganizing work processes"; iii) Internal wage flexibility that allows firms to "diverge from collective agreements"; iv) Internal temporal flexibility that allows firms to use part time or temporary work arrangements. External flexibility, on the other hand includes: i) *External numerical flexibility* defined as the employer's ability to adjust the number of employees to current needs through hiring and firing as well as through the use of temporary or fixed term contracts; ii) *External functional flexibility*, which "involves improving the ability of the

¹ The real and nominal exchange rate volatility (defined as the annual standard deviation of the monthly percentage change in real and nominal exchange rates respectively) have also increased by 28% and 55% from 1982-89 to 1990-2005.

workforce to adapt to the external labor market"; iii) *External wage flexibility*, which involves the availability of wage cost subsidies to reduce labor costs.

The central claim is that inflexible labor markets: increase cost of hiring and firing for firms; make them less responsive to changes in output demand; cause higher than equilibrium level wages; and encourage informalization as firms try to bypass restrictions in the formal labor market.

Nevertheless, in addition to inconclusive empirical support for the claimed benefits of flexible labor markets, there also exist theoretical counter arguments. First, even within the neo-classical framework, labor market flexibility may slow down investment in human capital by the firms as they use short-term and temporary contracts with no commitment to long term job security. As a result growth may slow down as human capital accumulation lags behind (Taymaz and Ozler, 2004). Furthermore, labor market flexibility may also affect the pattern of industrial specialization given that "countries with coordinated industrial relations systems and strict employment protection tend to specialize in industries with a cumulative knowledge base because coordinated industrial relations and employment protection encourage firm-sponsored training as well as the accumulation of firm-specific competencies" (Bassanini and Ernst, 2002 quoted in Taymaz and Ozler, 2004:4). Therefore, stable employment contracts, higher wage rates and more rigid flow of labor tend to make investment in human capital and training activities more profitable for firms as skill level of work force increases and leads to productivity gains.

In addition, economists outside the neoclassical tradition also point out several channels through which a flexible labor market can hurt long term growth and development. The list includes Keynesian efficiency wage theories where a higher than equilibrium wage may have positive effects on worker productivity through better worker motivation and health, lower shirking, better self selection into matching jobs, and also lower average costs through lower turnover rate. Furthermore, the Kaleckian and Structuralist tradition emphasizes the effects of income distribution on capital accumulation and growth especially with respect to the wage-led vs. profit-led growth dichotomy (Dutt, 1984; Taylor 1991, ch.3). As discussed by Taylor (1991: 82) "when output is the chief macroeconomic adjusting variable, real wage increases can either stimulate or hold down capacity utilization and the growth rate. Outcome depends on interactions between distribution and demand in a Kaleckian framework ... Beside output, the profit and growth rates may also increase in response to a higher real wage." Income redistribution in favor of profits stimulates economy depending on whether or not the profit-earners have lower saving rates than workers and/or investment is highly sensitive to profit rate (profit-led growth). In contrast, if investment is more responsive to consumer demand and that workers have lower propensity to save, then a redistribution towards workers (wage-led growth) would increase profit rate and capital accumulation as capacity utilization rises. Existing evidence, as reviewed by Taylor (1988) based on 18 WIDER case studies, suggests that increasing real wages may in fact increase output, profit and growth rates.

Finally, the high degree of informalization of labor markets, repressed and disfranchised labor unions, falling real wages, low levels of minimum wages and lack of unemployment benefits (that all reduce labor's bargaining power) in the aftermath of structural adjustment policies in most developing countries do not support the arguments that explain poor labor market performance with labor market rigidities. Also, the text-book example of using labor market rigidities to explain high European unemployment rates do not pass scrutiny tests given that countries with the most rigid labor market institutions (such as Scandinavian ones)