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EMPLOYMENT AND DECENT WORK IN THE ERA OF FLEXICURITY

Robert Boyer

PSE - PARIS-JOURDAN SCIENCES ECONOMIQUES

(Joint research unit CNRS-EHESS-ENPC-ENS)

48, Boulevard Jourdan 75014 PARIS, France
Phone: (33-1) 43 13 62 56 — Fax: (33-1) 43 13 62 59
e-mail: robert.boyer@ens.fr
web site: **http://www.jourdan.ens.fr/~boyer**

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INTRODUCTION

The current concern about development with decent work has to be appraised in historical retrospect. Back in the 60s, the so-called "Golden Age", for developed countries the institutionalization of workers' rights and the constitution of an extended welfare state have proven to be compatible with a fast and rather stable growth. At that time, dynamic efficiency and social justice were frequently perceived as complementary, not so much as contradictory.

But, since the 70s, the slow down of growth and the emergence of mass-employment have put into question this virtuous configuration. What was thought as an asset has turned to be viewed as a liability. In this context, experts have convinced many governments that most if not all labor market institutions had to be reformed, since they generated various rigidities detrimental to job-creation and innovation. The strategies of flexibilization of labor markets have been generalized and concerned wage formation, employment legislation, welfare, but also work-organization. During this second epoch, most analysts have perceived a trade-off between economic efficiency and social justice.

The pressure in order to reform labor contract and welfare in developed countries have been reinforced by the process of globalization: multinational corporations have delocalized significant segments of the value chain towards emerging countries, especially in Asia. These countries were supposed to enjoy a definite competitive hedge associated to low wages, high labor market flexibility and, for some of them, fast growth of their domestic markets. Consequently, the relative decline of old industrialized countries was partially attributed to the rigidity of their labor market institutions, whereas the surge of emerging countries benefited from highly flexible labor markets. Thus, during the 90s, more and more workers security enhancing devices have been perceived as detrimental to job creation, growth and innovation.

The core message of this paper is that this period might be over for at least three main reasons. First, the old labor market theory based on symmetric information has been replaced by more realistic hypotheses that take into account the specificity of the capital/labor nexus, both a market contract and a subordination relation. Therefore, a low wage and poor working conditions are no more an optimum for firms, given the endogeneity of work intensity, commitment and productivity. For instance, a fair labor contract that warrants a form of security – employment stability, access to unemployment benefits, right to training and further education – might be superior both for the firms and the individuals compared with a typical competitive adjustment of wages to the on going equilibrium value. The paper proposes to detect the various mechanisms according which a security enhancing welfare may improve simultaneously the financial performance of the firm and the welfare of the workers.

A second line of argument builds upon the results of various comparative analyses of the performance of OECD countries during the last decade. Whereas the countries that had more fully deregulated their labor market were supposed to be the best performers in terms of job creation, innovation and growth, a surprising finding focuses upon the quite remarkable configuration of small social democratic economies (Finland, Denmark, and Sweden). A generous income security is associated to a large freedom granted to firms concerning employment decisions. This exchange of a form of security against a capacity of adjustment is part of a compromise that delivers very good macroeconomic outcomes. Similarly to the Golden Age, the security of workers is no more contradictory with the flexibility of firms. This flexicurity model is an alternative to the flex-flexibility, typical workfare based upon an absolute search of flexibility for all the components of the labor contract (employment, hours, wages, social benefits, unemployment compensation, skills and competence….)

A last reason is specific to developing countries. A decade ago, the implementation of the Washington consensus was supposed to promote high speed growth, near full-employment and the progressive eradication of poverty. Nowadays, it is clear that the link between fast growth and the subsequent improvement in labor standards is far from mechanical. Of course, the poverty rate has been significantly reduced in large countries such as China and India, but it is not a widely observed phenomenon. Furthermore, a new branch of development theory stresses that basic rights might well be a precondition for successful growth strategies, and not only the long term automatic outcome of economic reforms in the direction of efficiency. Similarly, empirical investigations recurrently show that low wage and poor working conditions are not necessarily the key factors governing the localization of multinationals. Consequently, the crucial issue might be expressed in the following manner: what kind of workers security could benefit to development and how to implement the required securities?

The paper builds upon these three lines of analysis in order to detect how the reactivity to macroeconomic shocks, globalization, and technical change can be made compatible with the implementation of some securities for the workers of developing countries.

CONTEMPORARY ECONOMIC THEORIES: A REAPPRAISAL OF THE LABOR FLEXIBILITY/SECURITY DEBATE

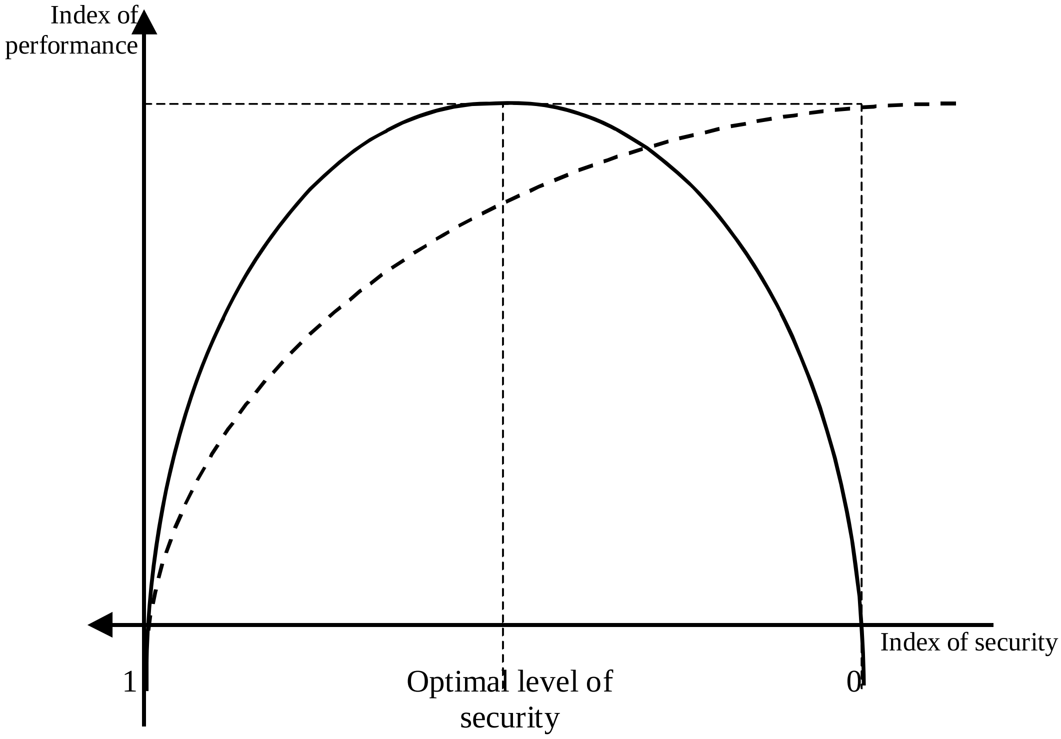
The issue of decent work, and more generally workers security, is closely linked to the broader question of the function and the impact of Welfare State. Actually, the literature on Welfare State is split along a clear dividing line. On one side, the theoreticians, especially the economists, tend to refer to a perfectly organized society with full information and insurance and compare this ideal with actually existing Welfare States, of course highly imperfect. Consequently, there is a strong temptation to state that the existing Welfare State is the main cause of unemployment, poverty, and social exclusion that should not exist in the pure theory of a market economy governed by democratic principles. On the other side, the specialists of the domain do analyze carefully the inner working of each system, the diversity of the strategies of the actors involved and finally the variety of organizations observed all over the world with no clear and nor absolute superiority of any single configuration. Roughly speaking, each society finally inherits from a Welfare State that is coherent with its system of values, political organization and economic specialization.

Actually, few frameworks take into account both the theoretical and empirical size of Welfare System and analysis the long run impact of social security. By chance, the renewed interest for growth theory and the recent concern for institutional analysis entitles a third way, that this paper tries to follow.

The inadequacy of a pure competitive model in assessing the impact of security enhancing welfare state

After World War II, the issue of social security used to be analyzed within a macroeconomic framework, put forward by the Keynesian breakthrough: in a sense, the Beveridge plan was conceived as a complement to a full employment program. Nowadays the intellectual scheme governing economic policy decisions is strongly embedded into a micro economic analysis of the rational choice off agents facing a system of prices, incentives and uncertainties (Council of Economic Advisers, 1998). Thus, implicitly at least, Partial or General Equilibrium Theory is frequently used to assess the impact of the social benefits and collective coverage of risk typical of welfare. If one adopts the old microeconomic theory where information is perfect and no externality prevails, then ineluctably any Welfare System will introduce a distortion departing from a pure and perfect competition equilibrium that is simultaneously a Pareto optimum. This is specially so if one considers some forms of collective control over employment or collective coverage of individual risk. Under this framework, any welfare measure is always costly in terms of economic efficiency: this trade off should be arbitrated by the democratic system, but the economist is clearly on the side of efficiency and efficacy (figure 1).

Figure 1 – Why the competitive equilibrium theory is not suited for assessing the impact of the security brought by welfare systems



The market view: security introduces a distance with respect to the general equilibrium that is a Pareto optimum.

The institutionalist view:
- Full security may be contradictory with the requirement of a capitalist economy.
- No security at all may create instability in the employment relation and institutional equilibrium.
- In between, some security may be optimum for economic performance as well as for welfare.

Such an approach is largely unsatisfactory and in some instances erroneous. First of all, modern economic theory does not confirm the generality of the convergence of a "tâtonnement" process toward equilibrium. It has been argued convincingly that the two welfare theorems actually relate to a perfectly planned economy and not at all a fully decentralized market economy (Benassy, 1982). If then information is made imperfect and the economy submitted to stochastic disturbances, it has been proved that a fully rational economic agent who would react instantaneously to the price signals exhibited by the market would be worse off than a prudent agent that would adjust its strategy smoothly (Heiner, 1988). Of course, not adjusting at all would lead quasi certainly to the bankruptcy of the agent: the maximum speed of adjustment is not optimum any more. This is a first and quite general rationale for the inverse U shaped performance curve of figure 1.

Many other models suggest a similar result about the optimality of *an intermediate level of adjustment and of flexbility*. For instance, a very simple multi-sector model describing income distribution and effective demand formation shows that the same inverse U-shaped curve is observed with respect to the speed of adjustment of employment to its (neo-classical) efficient level (Boyer, Mistral 1982). The reason is simple: that is gained at the micro level in terms of productive efficiency can be lost at the aggregate level by a negative impact upon effective demand. More general models inspired by modern classical theory put forward the role of the correction of various disequilibria (on the product market via the inventories, on the labor market via hiring and on the financial market via investment) in the convergence respectively towards a short term, medium term and finally long period equilibrium. Nevertheless, if the speed of reaction of the firms is too high, one observes a bifurcation point generating two equilibria. In between there is the equivalent of a crisis, in the sense of a brusque shift of one equilibrium to another (Dumenil, Lévy, 1993). Again, the maximum speed of adjustment is adverse to the economic performance and even to the existence of a market equilibrium. Such a property is finally very general and concerns too financial markets themselves: up to a threshold, too fast capital mobility in reaction to profit rate differentials may propitiate a period of fast growth and then an abrupt crisis. This pattern is explained by lack of productive diversity in order to cope with new type of disturbances or stochastic shocks (Eliasson, 1984).

A more specific analysis suggests that there generally exists an inverted U shaped relation between the *degree of security* and long term economic performance (Altman, Bordoff, Orszag and Rubin, 2006). First, a basic level of security allows individuals to take risks, for instance to invest in education, launch a business or try new methods or imagine new products, all actions that at the origin of growth. Second, the existence of a safety net mitigates the adverse effects of hardship since the assistance in terms of finance, education or training helps in overcoming the temporary setbacks that goes along with a constantly evolving economy. A third benefit of a modicum security is especially important during a period of globalization and fast technical change: an adequate level may lessen the demand for protectionism and Malthusian policies what would hamper growth. The very process of creative destruction calls for some form of security for the industries and jobs adversely affected by the restructuring of the economy.

Thus neither total insecurity nor complete security is good for long term growth .Consequently the issue is to find out what should be the optimum degree and form of security, given the parameters of each economy. There is no rationale to look for the maximum flexibility and conversely a large reactivity of labor market is not necessarily contradictory with decent work, defined as the right to a basic security. These general results are especially important for the assessment of Welfare Systems since they basically deliver a form of insurance and a smoothing of adverse events. From a theoretical point of view they may (or may not…but this is an empirical issue) contribute to macroeconomic performance.

The need to take into account the externalities associated to various forms of security

The previous reasoning was questioning the hypothesis of full information in an uncertain world and was claiming that a form of insurance and smoothing of disturbances might improve macroeconomic performance. But there is a second justification for extended welfare and public intervention, i.e. the existence of positive or negative externalities that cannot be internalized via private insurance or incentives directed towards the private sector (WHO, 2000: 55). The argument can be developed, made more specific and closely stick to the various forms of security analyzed by the Socioeconomic Security Program (ILO, 2004b) (figure 2).

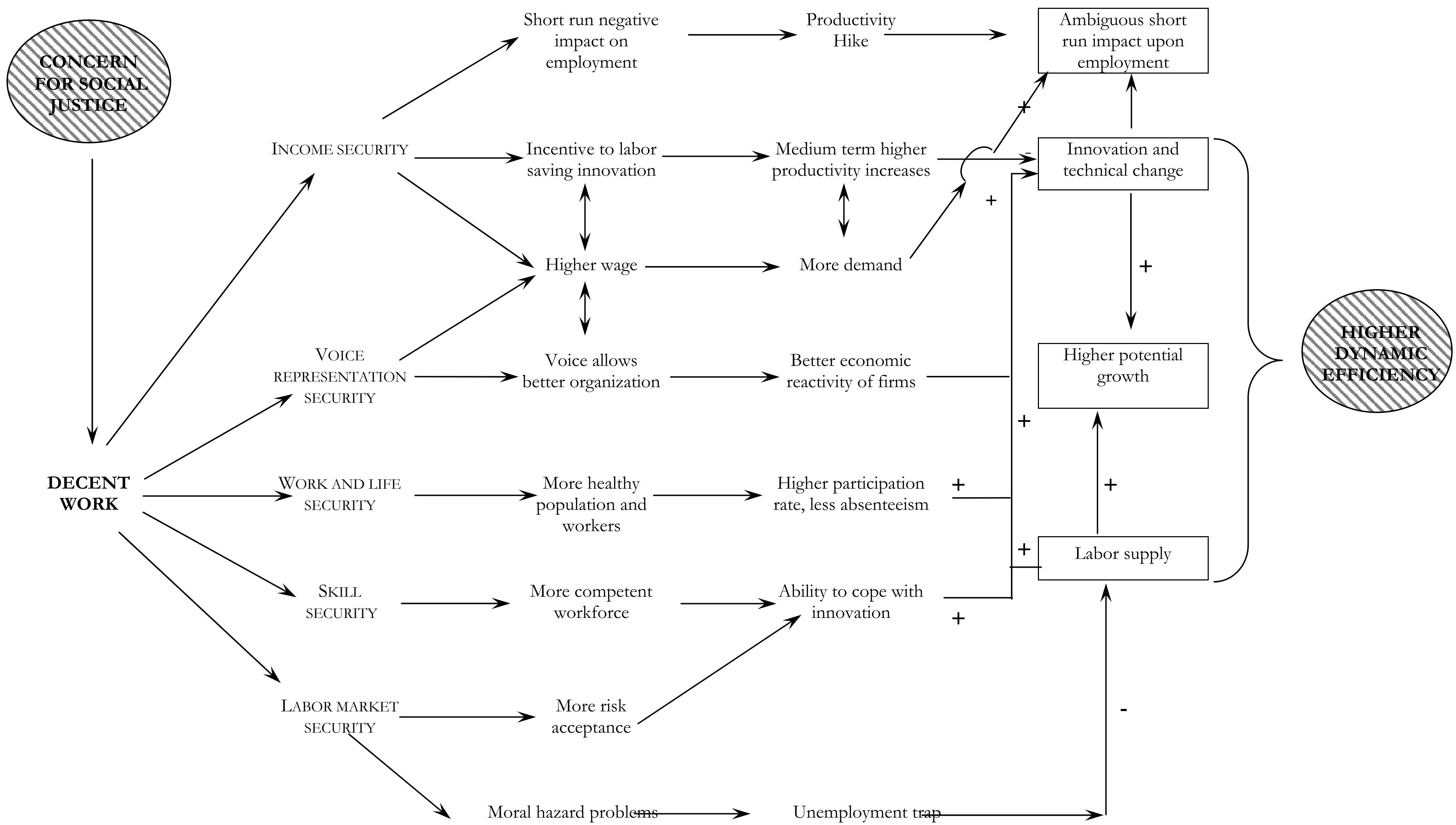
- Traditionally, public authorities may promote *income security* in reaction to the adverse outcome of pure market logic upon poverty and social inequalities. One form of this security is the imposition by law of a *minimum wage*. For this intervention to be effective and binding, conventional micro theory concludes that the less paid workers will be priced out of the market, provoking then unemployment. But it is only a partial equilibrium result since such a measure has a global impact upon the total wage bill, hence the level of effective demand. Have not recent careful studies concluded that the recent hikes in American minimum wage have finally benefited to employment, contrary to the expectation of a typical neo-classical analysis? This short medium term impact might be completed in the long run by the incentive that the absence of a downward flexibility of wage exerts upon the direction and intensity of labor saving innovations. On aggregate, the impact might be positive…and has actually been during the Golden Age (Boyer, 2000).

- A second form of income security, the *unemployment insurance system*, has also some impact upon the speed of adoption of technological and organizational change. Whereas most of the analysts focus upon the negative side of the social contribution associated to the payment of unemployment benefits, i.e. less employment, a medium long term view introduces a positive factor: when workers are sure to be somehow compensated from the job destruction associated to technical change, the related restructuring is more easily accepted. Some European comparisons made during the early 80s, confirm this hint (Boyer, 1988). Conversely, when such a compensation is absent (in contemporary Russia (Touffut, 1999) for instance), the benefits from technical change are not clearly perceived by the workers, who tend to protect the existing technologies, closely associated to the conservation of their jobs. Thus macro solidarity is better than micro egoism for the diffusion of innovations.

- *Voice representation security* is present when, for instance, collective rights are granted to *unions* for representing workers and negotiate with firms may have the same dual impact. On one side, a form of oligopolistic power is thus introduced into the functioning of labor market that may create a negative effect upon the level of employment in compensation of higher wage. But on the other side, the voice given to representatives of the workers may enhance commitment and the ability to introduce new technologies or redesign the organization of the firm for the mutual benefit of the entrepreneurs and the workers (Freeman, Medoff, 1984). The German and Japanese configurations of the 80s gave a good image of this kind of complementarity between social rights and economic performance linked to the quality of product or the high productivity in the production of standardized goods, brought by "good" industrial relations.

- *Life security* is a still another component of workers security. It can be extended from accident and illness at work to healthcare in general. Now, more and more, some theoreticians of economic development (Chenery and Srinivasan, 1988, Todaro and Smith 2006) admit by that the *level of health* is an important factor in the quality and size of labor supply and by extension the productivity of workers. Even for developed countries, the welfare gains associated to the extension of life expectation and the reduction of morbidity may have overcome the gains as they are measured by conventional national accounting methods (Foundation Albert and Mary Lasker, 2000). It is well known that significant externalities are operating within the health care sector (fight against infectious diseases, increasing returns to scale associated to vaccines and pharmaceutical research.…). Clearly, at the world level, the role of Welfare State in the provision of an adequate level of health care is more essential than ever (WHO, 2000).

Figure 2 – How various securities may enhance dynamic efficiency



- In the same spirit, *skill security* is a fourth component. Along with basic *education*, permanent competence building is more and more recognized as a key factor in endogenous technical change (Lucas, 1988; 1993) and in social stratification (Bénabou, 1996). The externalities are multifaceted: the educational system delivers higher competence of production workers, develops the ability to learn along the whole spectrum of the life cycle, detects and trains the innovators able to invent new products and processes and so on…. All these gains cannot be internalized by market mechanisms and it is why many educational systems are public or subsidized and that a minimum level of education is generally compulsory. Thus even if education is not formally included into the strict definition of a Welfare State, it is important to address this issue, quite relevant for the discussion of the role of public interventions in contemporary world.

According to this framework based on a realistic appraisal of information problems and externalities in decentralized economies, the achievement of more social justice is *not always* detrimental to economic efficiency. In some special cases, a synergy could emerge between a well designed Welfare State and the dynamism of innovations. A very simple model can be sketched in order to capture the core of the argument (Figure 3). Let us imagine that a tax is levied in order to finance a society wide training system. Two distinct effects are operating and should be considered simultaneously.

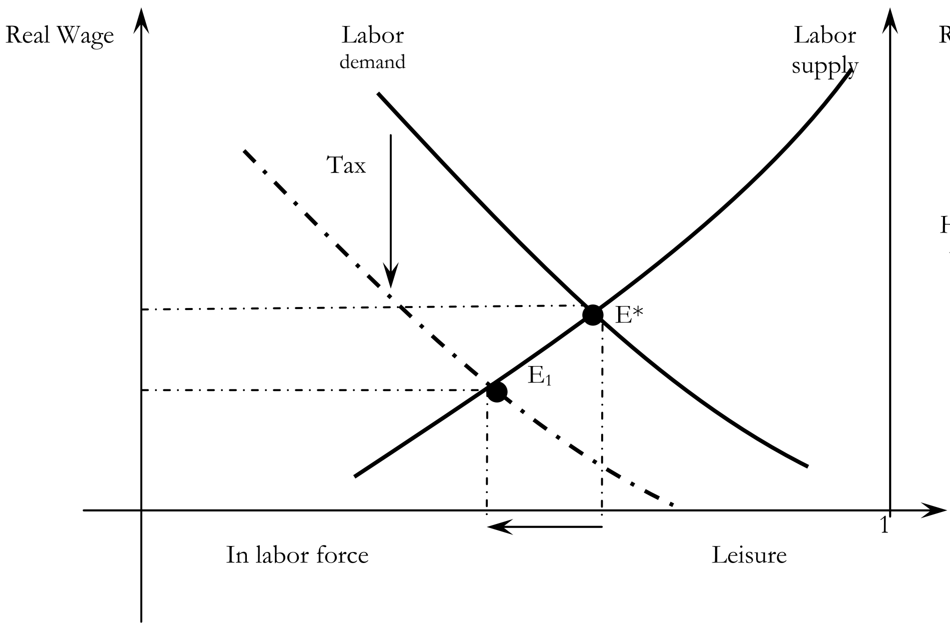
- Of course, the related *tax* has to be paid, for instance by the firms, and therefore their demand of labor is shifting *adversely*, in such a manner that in the short term the equilibrium real wage is lower therefore induces a shift from employment to leisure. Frequently, the reasoning stops here and the analysts conclude that the measure is finally counter productive: a society without Welfare State would deliver a better welfare for citizens, quite a paradox indeed!

- But, the social tax is not only a cost since it delivers a *benefit* and is supposed to contribute for instance to the financing of more *education and training*. Therefore, the productivity of the labor force is higher than it would be within an economy devoid of such a welfare system. Consequently, productive employment is lower but the fraction of the population that is on training increases at the long term equilibrium. Within an endogenous technical change model, total factor productivity increases are linearly linked to the stock of human capital. If so, the steady growth path is higher than previously and finally this compensates the lost of productive output during the first phase of implementation of the measure. Therefore, for a sufficiently low actualization rate, the economy finally benefits from the collective financing of more training and education.

To sum up, the contribution to social security may affect negatively the short run equilibrium but may induce decisions and investments that promote innovations and growth. Such a framework, even if relatively simple, allows a rigorous assessment of the pro and con of any component of the Welfare State, without concluding ex ante that it is always detrimental (this is the quasi general conclusion from typical neo-classical research) or always good (that is sometimes the propensity of the defenders of existing Welfare States). Consequently, the assessment of contemporary Welfare States is not a pure theoretical issue but above all a matter of careful empirical studies (Atkinson, 1999; Tachibanaki, 2000; Tachibanaki, Hiroshi, Kuroda, 2000).

Figure 3 - A reconciliation of two opposed visions of the impact of welfare

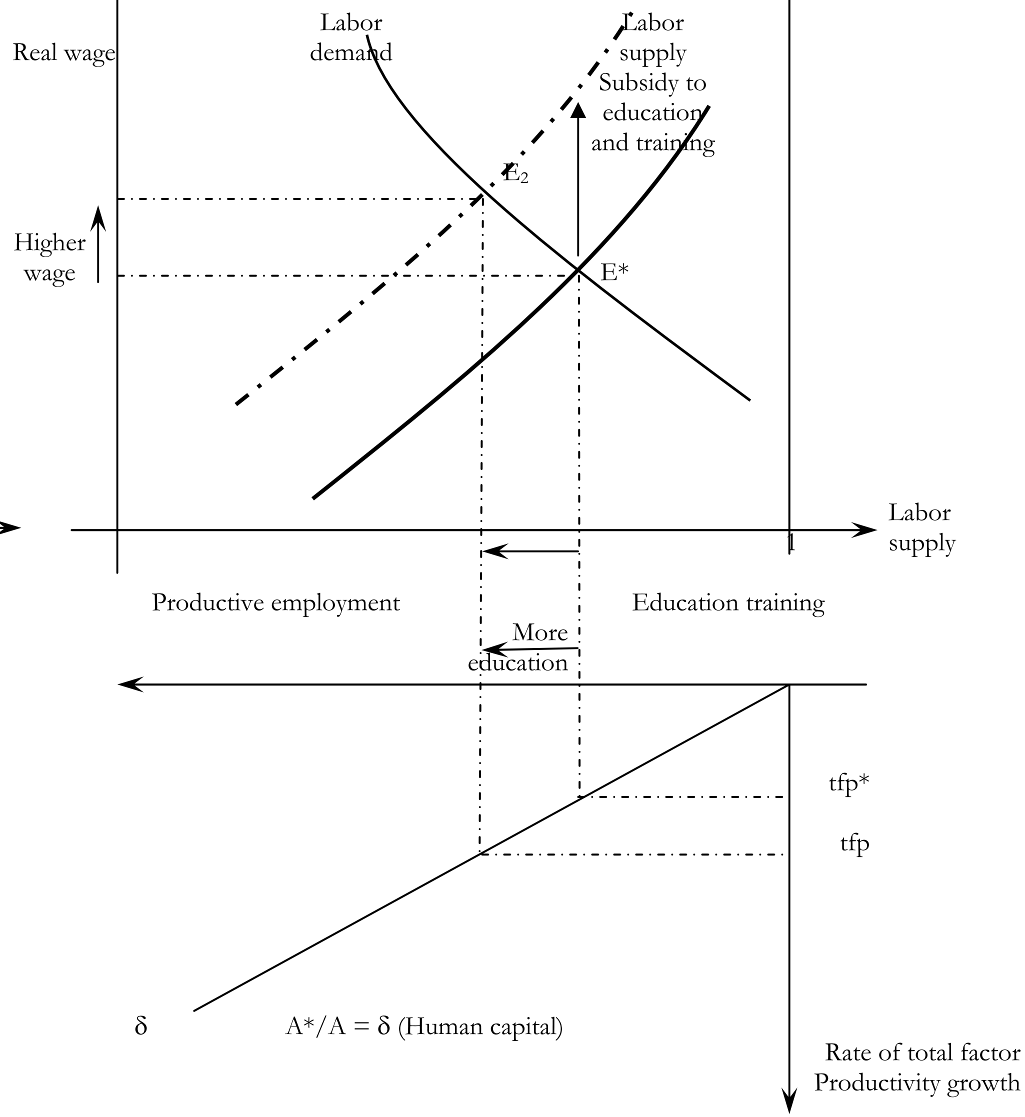
A DISTURBANCE INTO PERFECT COMPETITIVE EQUILIBRIUM



Accordingly to the ***first vision***, welfare financing by a tax on firm reduces both real wage and employment…

According to the ***second vision***, welfare may reduce productive employment but enhance long term productivity increases

A (POSSIBLE) CONTRIBUTION TO POSITIVE EXTERNALITIES WITHIN AN ENDOGENOUS GROWTH MODEL



SOME LABOR SECURITIES PROMOTE ECONOMIC PERFORMANCE

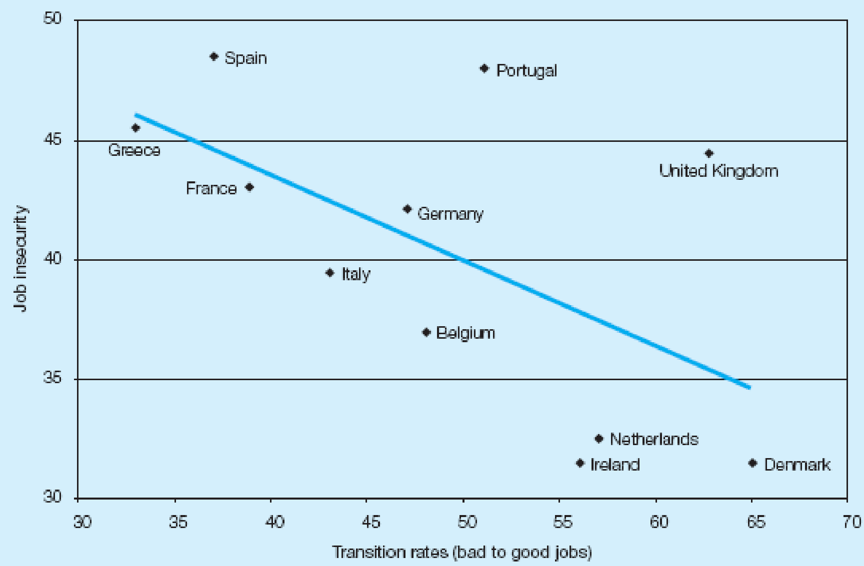
It is out of the scope of the present paper to provide such an assessment. Its objective is far more modest: to deliver a brief survey of the literature according to this vision of the Welfare State. Let us provide very crude evidence about the inadequacy of the conventional vision that puts forward only the costs and neither the benefits of workers security.

Job security helps workforce redeployment

The core argument in favor of typical labor market flexibility is twofold. On one side, in response to economic and technological shocks, the labor force has to be shifted to one firm to another and across sectors. Such a move warrants static efficiency that is privileged by partial or general equilibrium analyses. On the other side, when technological change is speeding up, especially if an old productive paradigm is decaying and a new one, quite different emerging, intensive shift of workers has to take place from the mature to the sunrise industries. But why should the workers accept these structural changes? Only if their *ex post* long term welfare is improved and if the transition costs are reduced by an adequate public redistribution of the benefits associated with productive increases and product differentiation.

An international comparison suggests that job security is quite beneficial to the acceptance of change and the move from bad to good jobs (figure 4). Of course, the relation is not that simple. On the one hand, Ireland, Netherlands, and Denmark do combine job security and very high transition rate from obsolete to emerging jobs. On the other hand, United-Kingdom defines a second configuration whereby a high level of insecurity induces a large mobility. This is an important caveat for any temptation to single out a one best way model. Institutional economics explain why: There exist different complementarities between the nature of competition, the organization of labor market, the generosity of the welfare and the direction and intensity of innovation (Aoki, 2001; Amable, 2003).

Figure 4 – Quality of job prospects and insecurity, selected European countries, 1995-2000 (percentage)



Note: Transition rates from low-quality to good-quality jobs are measured in percentages and are based on a European Commission survey conducted during 1995-1996. Jobs are categorized depending on pay, productivity, job security, training opportunities and career prospects. Job insecurity data measures the percentage of workers who are unsure of a future with their employer even if they perform their job well.

Sources: European Commission, 2002. Data for 2000 based on the International Survey Research database, various years.

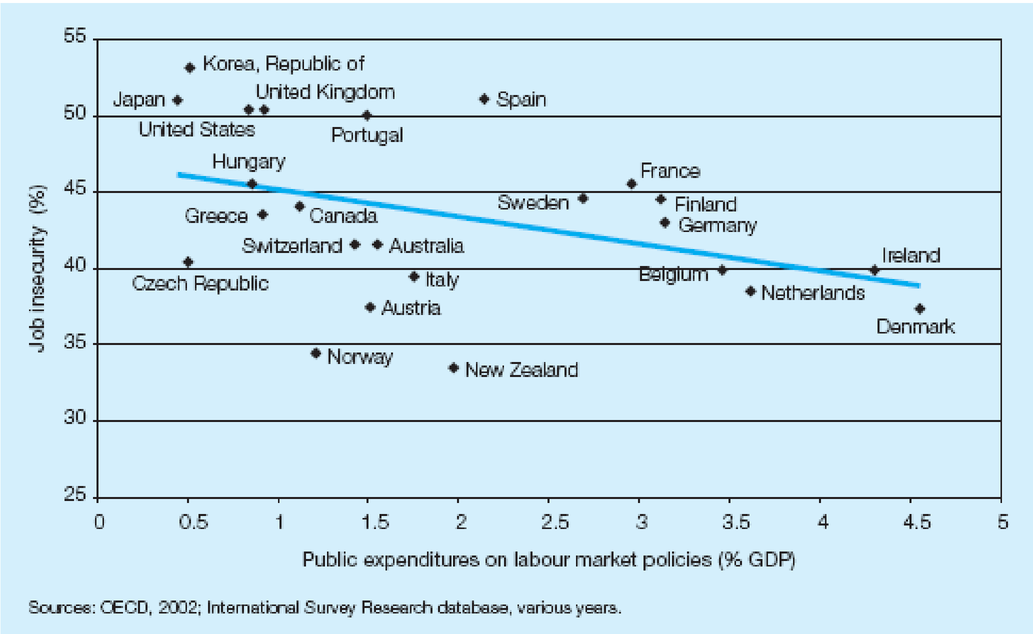
Source: ILO (2004), World Employment report 2004-05, p. 206.

Labor market policies can reduce job insecurity

Let alone, the functioning of highly competitive labor markets does not provide the job security that workers expect, for various reasons. First, modern labor market theory suggests that full employment is the exception and the equilibrium with unemployment or scarcity of workers is the rule. One of the objectives of macroeconomic policy is precisely to maintain the economy near by a quasi full employment, but the task has become more and more difficult, especially in Europe. Second, in case of unemployment, the access to employment can be restricted to the most skilled and productive workers, and let the less privileged in long term unemployment. It is why active labor market policies have to be designed and implemented.

Precisely, empirical analyses among OECD countries confirm the existence of a significant correlation between job insecurity and the poor spending for employment policies (figure 5). Again, among the star performers in terms of security, one finds the same countries as for figure 4: Netherlands, Ireland and Denmark. At the opposite, United Kingdom, United States, but also Korea and Japan are characterized by low degree of intervention in the functioning of labor market and quite large job insecurity.

Figure 5 – Job insecurity and spending on labor market policies, selected OECD countries, 2000



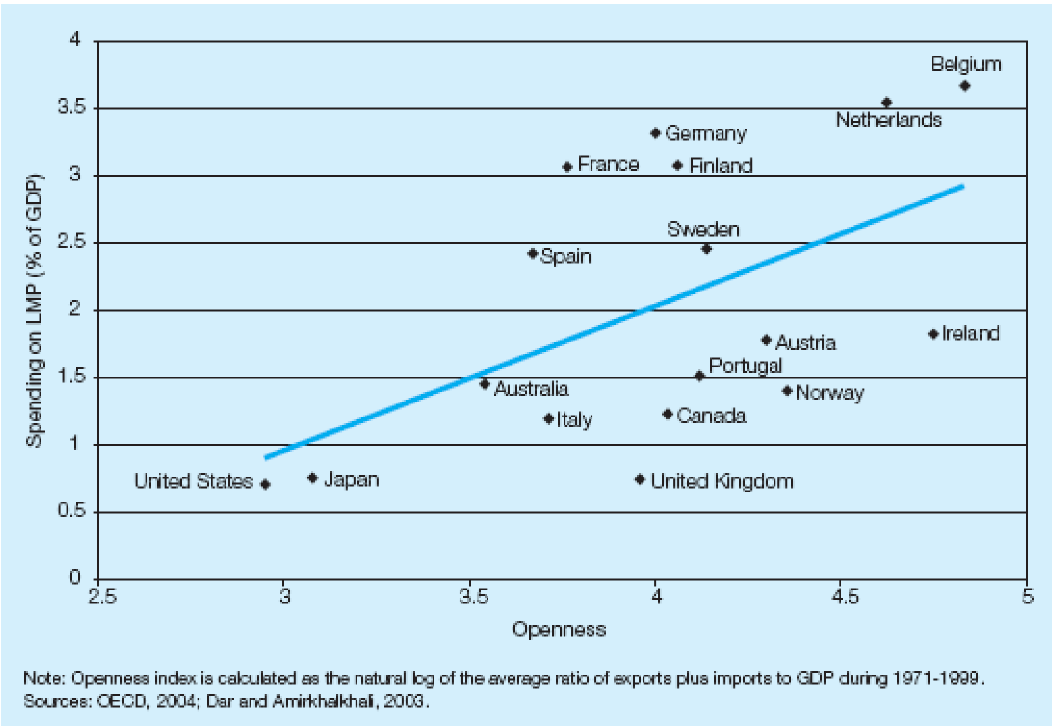
Source: ILO (2004), World Employment report 2004-05, p. 207.

Small open economies have more active employment policies

Conventional economic theories generally suggest that small and very open economies need a larger flexibility than medium sized or large countries. Basically, they should be price takers and thus unable to finance the extra costs associated to a generous welfare state promoting workers security. This stylized fact is not at all confirmed by international comparisons among OECD countries. At one extreme, large and not so open economies such as the US and Japan do not spend large amounts for employment policies. A the other extreme, Finland, Sweden, Netherlands and Belgium combine a large openness to world trade with a major influence of labor market policies (figure 6).

Political economists provide a quite appealing interpretation. When the welfare of the citizens is highly dependent from the successful integration in the international division of labor, simultaneously some major risks do occur due to the fast and frequently unexpected variations in the demand, exchange rate and price in the international economy. Therefore, according to a long historical process, these small open economies have found that an extensive welfare and a redistributive tax system are the permissive conditions for the acceptance by workers of international competition and the related uncertainty. But of course, this is not at all a functionalist or mechanical process, since social movements and politicians have to convert these pressures into acceptable compromises between labor and capital (Katzenstein, 1985). These findings are both a hope and a challenge for developing countries: on one hand, their opening the world economy might be associated with new risks that call for the design of solidarity procedures in order to share the benefits of the winners with the losers; on the other hand, the design and implementation of adequate labor laws and welfare benefit are a quite difficult task, especially for countries politically unstable and with poor institutional capacity.

Figure 6 – Spending on labor market policies increases with openness, selected industrialized countries, 1970-2000

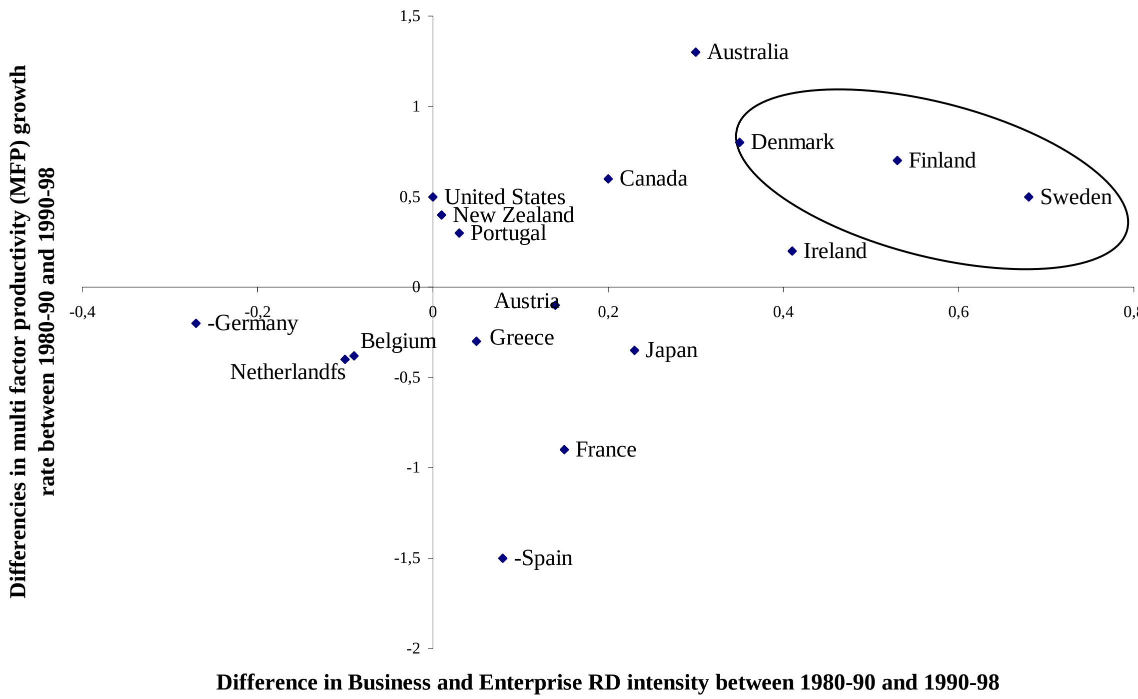


Source: ILO (2004), World Employment report 2004-05, p. 190.

Active welfare may be complementary to innovation policy

One could expect that the economies with the most intensive redistribution via welfare should be lagging in terms of macroeconomic performance. Quite on the contrary, it is surprising to find out that the countries with the leaner welfare benefits are not necessarily at the forefront of technological innovation and that most of the small open economies with an extensive welfare have been faring quite well during the last decade (Denmark, Finland, Sweden,…), with total factor productivity increases rivaling with the so-admired American "New Economy" (figure 7). The recent research undertaken the aegis of OECD in order to explain why do growth rates differ so much during the 90s has exhibited that these European economies are already operating under the virtuous circle that is assumed to be typical of a Knowledge Based Economy (KBE) (Bassani, Scarpetta, Visco, 2000; OCDE, 1999; Guellec, 2000).

Figure 7 – Changed in MFP growth and change in business R&D intensity



Source: Bassanini A., Scarpetta S., Visco I. (2000: 27)

A whole spectrum of configuration for workers security

Thus, international comparisons falsify the conventional hypothesis of a one best way for the organization of welfare. *A priori*, one should observe a very large variety combining income security, voice representation security, life security and skill security. Actually, the existing configurations are less diverse, probably due to the existence of complementarity as well as some major incompatibilities between these various forms (table1).

Table 1 – Employment or employability protection? A typology of OECD countries late 1990s and early 2000s

	High social protection	Low social protection
High employment protection	Tenure: *2nd longest* LMP spending: *2nd greatest* Job security laws: *2nd strictest* Job security perception: *2nd highest*	Tenure: *longest* LMP spending: *2nd least* Job security laws: *strictest* Job security perception: *lowest*
Countries	France, Germany, Sweden	Japan, Portugal, Greece, Italy, Spain
Low employment protection	Tenure: *2nd shortest* LMP spending: *greatest* Job security laws: *2nd most lenient* Job security perception: *highest*	Tenure: *shortest* LMP spending: *least* Job security laws: *most lenient* Job security perception: *2nd lowest*
Countries	Denmark, Belgium, Netherlands, Finland, Ireland	United States, United Kingdom

Note: Own compilation and assessment based on the data sources below.

Sources: Job tenure data for Europe from Eurostat and for the United States and Japan from national surveys, various years; LMP spending data and strictness of job security laws from OECD, various years; job security perception from International Survey Research database, various years.

Source: ILO (2004), World Employment report 2004-05, p. 209.

Basically, for developed countries, two major tools have been used in reaction to workers demand and the nature of insecurity. On one side, some governments might be tempted to protect existing jobs and this is employment security *stricto sensu*. Typically, Mediterranean European countries belong to this model. On the other side, social partners might prefer to accept intensive job destruction and creation in return of a safety net that provides a high income security for the displaced workers in response to competition, technical change, or crisis. Again, the small open economies, previously mentioned, Denmark, Belgium, Netherlands, Finland and Ireland belong to this configuration. Two composite cases exist. A third group, composed of United States and United Kingdom, exhibits simultaneously a low social protection and a very weak employment protection. A hybrid configuration combines both high social coverage and employment protection: France, Germany and Sweden.

Thus, this brief survey of the links between labor market flexibility and workers security in OECD countries delivers an important message: according to economic specialization, degree of opening, the nature and history of social political demands, various mixes of flexicurity can be observed. Therefore, the flex-flexicurity is nearly an exception and not at all the rule. For many dimensions of labor, the maximum flexibility is not an optimum and thus a convenient degree of security is not detrimental to dynamic as well as static economic efficiency.

DEVELOPING COUNTRIES: QUITE SPECIFIC CONDITIONS

A priori, many structural conditions differ between developed and developing countries. Therefore, it is not a surprise if the configuration of flexicurity cannot be copied easily, even among closely linked European countries (Boyer, 2006). But the major transformations of the world economy as well as the paradigm shift of productive model associated to ICT and of course the domestic social demands open some possible improvements, reconciling employment creation and decent work. Some recent advances in development theories propose an interesting tool in order to assess what are the key factors that limit growth and employment: in some instances, the promotion of worker securities may simultaneously improve the welfare of the society and macroeconomic performance (Hausmann and alii, 2005). Another crucial issue relates to the tools available in order to create implement and monitor worker securities. The challenge might seem quite severe, but the good news is that some developing countries have been rather or quite successful in promoting element of a decent work policy.

Constraints and opportunities about productive employment and decent work

These objectives should be universally valid, but the specific features of different groups of countries call for quite contrasted institutions, mechanisms and objectives in order to achieve these objectives (Ghai, 2002). Basically, if the need to compete via product differentiation and innovation is an incentive to flexicurity in the context of high employment rate in the formal sector, by contrast most developing countries suffer from two structural obstacles to the diffusion of decent work and security. First an impressive labor surplus leads to the domination of informality, i.e. an absence of labor contract, of legal status of the activity as well as the avoidance of taxes. It is especially so for the rural sector, largely associated with the domination of agriculture. Consequently, the implementation of ILO standards is highly problematic for developing countries specialized in the production and export of primary commodities.

Second, collective action in favor of workers security is made difficult by the fact that governments and public administrations do not have the resources, the ability nor the legitimacy to implement economy wide labor standards. Similarly, workers unions are difficult to organize or even do not exist in the informal sector.

Furthermore, developing countries experience a larger macroeconomic volatility than industrialized economies, in the context of low income levels that make insurance for workers difficult to finance. The procyclicity of public budgets is another hindering factor. Paradoxically, financial globalization that was supposed to help poor countries to alleviate economic downturns seems, until now, to have the opposite impact, i.e. to bring new sources of crises, especially for Asian countries. This has been quite detrimental since these crises have reduced long term growth of poor countries (Cerra and Saxena, 2005). The number and the severity of these constraints may suggest that the strategy proposed by ILO is hopeless for developing countries (Table 2). By chance, some (modest) countervailing forces are pointed out by the literature.

Table 2 – Obstacles and opportunities for decent work in developing countries

1. Large hidden obstacles to open employment large informal sector	• Frequently attributed to the excessive security granted to the formal sector
2. Weak states	• Social compact • Role of consumers of third world products
3. Weak / non existing unions	• Institution of representative unions by State regulation
4. Low income level and resources for insurance	• Human development: a condition as well as an outcome of economic development
5. Rural activity as structurally uncertain	• Move from the agriculture to the services
6. Large macroeconomic instability	• The smaller the economy, the more likely flexibility, and significant the welfare
7. More uncertainty with the opening to the world economy	• Globalization may be a trump: - Higher wage for multinationals - Higher wage in the export sector - Codes of conduct
8. Rare public training	• Shortage of skilled labor as an incentive for upgrading competences

- It is first difficult to consider that the relative security granted to the fraction of workers employed in the formal sector is the reason for the lack of protection of the informal workers. The argument may (perhaps) apply for OECD countries where a large sector protected by labor laws is complemented by atypical labor contracts that bear most of the required flexibilitiy in reaction to uncertainty. But, in developing countries, the ocean of flexibility of informal work is not the necessary complement of the rare islands of relative security: the high flexibility is the direct consequence of the productive structures, nature of demand, and eventually the style for macroeconomic policy.

- Given the pressures towards more flexibility evenfor the previously protected workers, the distance between formal and informal employment could be reduced by progressive steps in granting some rights to informal workers, compatible with the employment decisions of entrepreneurs. The long term goal could thus be to open a path in the direction of "a single regime with qualified tolerance and minimum floors" (Tokman, 2006). Symmetrically a simplification of property titles and a form of *de jure* recognition of *de facto* property could help in fostering entrepreneurship and thus creating more wealth and alleviating poverty and insecurity (De Soto, 1986). In both case, the recognition of rights may foster production and employment.

- The low level of surplus available for accumulation is a strong incentive to allocate scarce resources to the more productive investments. The formation of human capital, in education and health, appears as a powerful lever in the promotion of development since it delivers more competences and life security (Todaro and Smith, 2006). This is simultaneously the input and the output of the process of development: quality of life and work security do evolve along with the growth.

- *Per se*, macroeconomic instability – either typically domestic or implied by the vagaries of the world economy – should be an incentive to search for mechanisms providing a form or another of security to people, and especially, workers. But this need is fulfilled only if collective action allows to design the equivalent of insurance mechanisms: business associations, workers unions, NGOs, civil servants are required to discuss, negotiate and agree to build the various components of a welfare State. Actually, the more open the developed economies, the larger the spending on welfare, including active labor market policies (See figure 6, supra). This process took nearly a century and the process is continuing in response to the structural changes of the last decades. No surprise then if poor countries experience such difficulties in building their welfare States in the epoch of trade liberalization, financial globalization and productive paradigm shift. The organization of collective actors as well as the effectiveness and legitimacy of the State are among the discriminating variables. This might well be a convincing explanation why national trajectories differ so much between Africa (Nkurunziza, 2006), Latin America (Pages, 2003) or even within East Asia (Kwon, 2006)

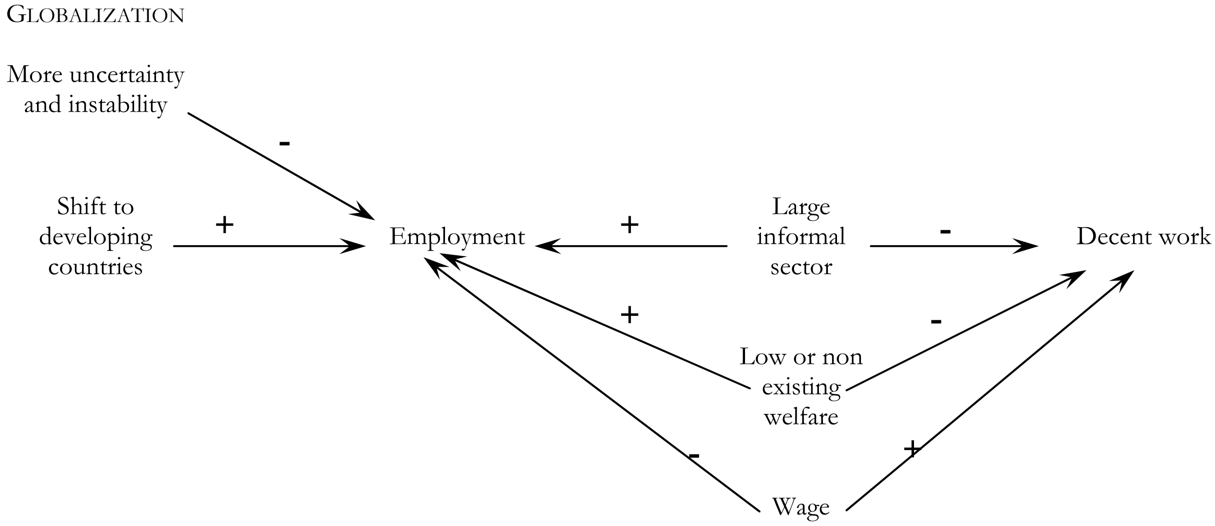
The ambiguous impact of globalization on labor standards

The impact of the world economy on the perceived trade-off between employment and decent work is far more complex that the pro and anti-globalization generally assess. It is simply because internationalization has many distinctive components with contrasted impacts and because national economies differ drastically under this respect (figure 8).

- When trade opening contributes to the dynamism of a manufacturing export sector using modern technology, generally the welfare of the related workers is improved, Korea being a good example (Kwon, 2006). But when a rapid and general decrease in tariffs takes place, the destruction of manufacturing competences and high wage jobs may correlate with a return to a quite regressive specialization in natural resources (Boyer and Neffa, 2004), with few job creation and thus a neat widening of inequalities (Waisgrais, 2002) and the diffusion of work insecurity to a large fraction of the population, as it was the case in Argentina.

- It is now widely recognized that trade and financial opening are not equivalent (Prasad and alii, 2004): on average, trade enhances welfare, whereas opening to finance has not such a positive effect, while provoking an increase in the probability of financial crises. Since growth rate is reduced after such episodes, the global impact, until now at least, has frequently been detrimental to work security.

Figure 8 – Chances and constraints on productive employment and decent work



- The opening of capital accounts may have quite contrasted outcomes. In theory, FDI develops domestic productive capacities, frequently it contributes to export. Some empirical studies suggest the "conventional wisdom" that foreign investors favor countries with low labor standards is not confirmed (Kucera, 2001). Actually the degree of worker rights may go along with political and social stability and human capital development. By contrast portfolio investment brings frequently brusque and unwarranted inflows that distort the terms of trade and the productive structures in favor of the sector producing non tradable goods. The related boom ultimately ends by a sudden stop of capital inflow (Kalantzis, 2006). In developing countries this means a severe recession and frequently political programs that promote "labor flexibility". The final outcome is a growth slowdown, more insecurity of labor contract for a major fraction of the population.

An optimistic view could consider that if the sequencing of the opening were correct – trade, foreign investment, portfolio investment – globalization could help to the promotion of some labor standards (Ghose, 2003: 95-109), while contributing to productive employment.

Employment diagnosis: a method for drawing a dividing line between flexibility and security

Quite rightly, the present Forum stresses the fact that productive employment is the primary component of any pro-labor policy. This paper has tried to show that the maximum flexibility is generally far from the optimum in terms of economic efficiency. The issue is then to detect what should be the most convenient flexibility/security mix compatible with an objective of job creation. The answer cannot be derived from pure theory since the precise structural conditions have to be analyzed in each national, regional or local context. In a sense, this is a drastic reversal with respect to the legacy of the so-called Washington consensus, according which the same general menu was supposed to fit all the domestic contexts.

Have we the relevant tools in order to make such an analysis? The long experience of development economics has recently delivered a quite interesting and stimulating method in order to cope with the diversity of developing as well as developed countries. The growth diagnostics (Hausmann and alii, 2005) proposes to systematically review what are the multipliers associated to the relaxation of the various constraints inhibiting economic activity and to design accordingly economic policy and reform economic institutions. In some instance, a policy that delivers quite impressive result in one country may be inefficient, or worse detrimental, to growth in another and conversely. For instance, the authors find that a sound macroeconomic policy is far from being a sufficient condition for growth since the long term trajectory is shaped by quite different factors than the short term equilibrium. In other words, static efficiency – frequently associated to price flexibility – has to be distinguished from dynamic efficiency, i.e. the ability to improve cumulatively productivity and standards of living of an entire population.

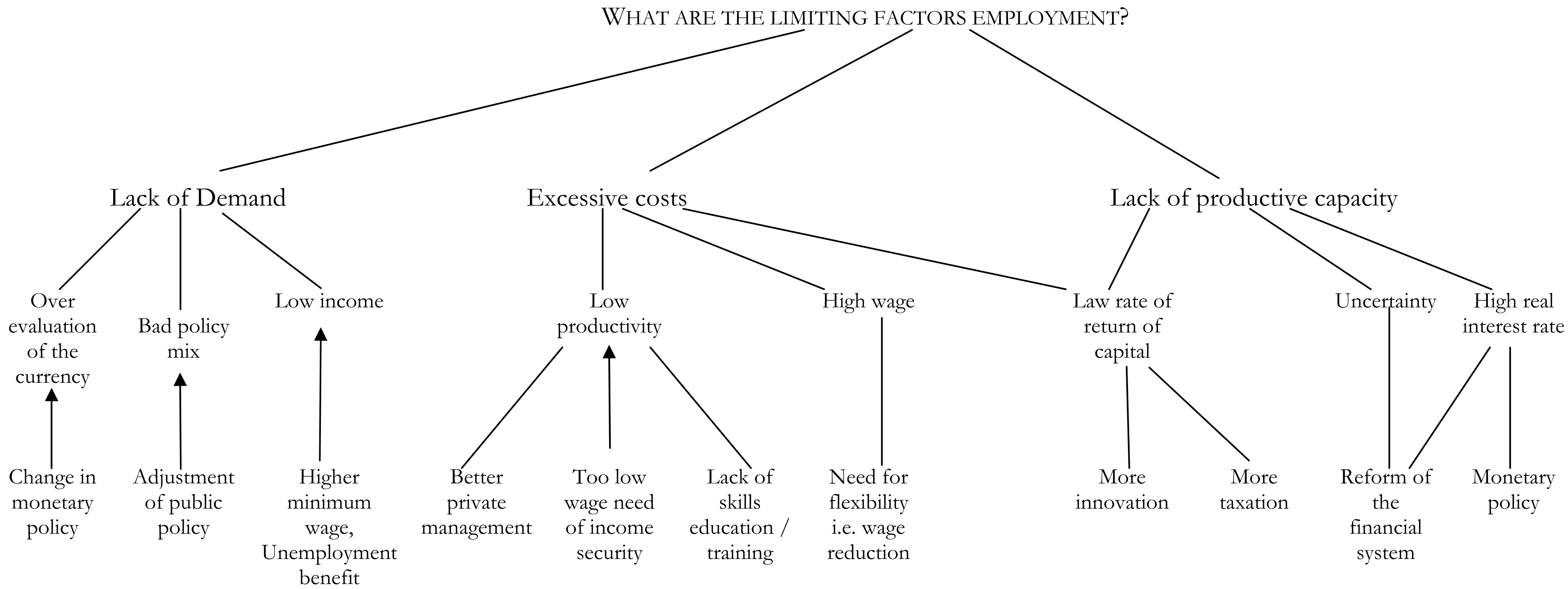
It might be useful to rejuvenate a macroeconomic theory that has been quite enlightening in the 80s in order to propose an analytical framework that would transcend the opposition between Keynesian and neoclassical conception of the determinants of employment (Benassy, 1982). Actually the so-called disequilibrium theory exhibits a series of determinants of employment. The unemployment is Keynesian if the limiting factor is effective demand, classical if the low profitability limits hiring, Marxian if the scarcity of productive capacity is at the origin of low employment. When applied to developing countries and to the analysis of the links between employment and various forms of workers security, this framework delivers three major teaching (figure 9).

- In many cases, the issue of labor market institution reform might be irrelevant, since the disequilibrium originates from totally different factors: an overvaluation of the domestic currency, an excessively high interest rate due to the lack of credibility of economic policy or a bad management of firms…In such a context, the search for wage flexibility for example may deliver second order results, since this is not the relevant constraints of growth. Too often, in the 90s, financial disequilibria have triggered excessive down grading of workers security in terms of wage, work intensity, welfare…

- In some instance, employment level can increase by strengthening a precise form of workers security. For instance, if unemployment is Keynesian, more income security for workers has a positive impact both on employment and profit rate. Similarly, when firms are limited by skill scarcity, a policy developing workers competences simultaneously improves macroeconomic performance and promotes welfare as well as a possible reduction of income inequality. In this case, there is a complementarity between employment level and a form of worker security. Nevertheless, this is not necessarily the case, and the mix between flexibility and security has to be tuned to the precise local situation at a given historical period.

- Within a third configuration, labor flexibility might be required in order to increase productive employment if for instance classical unemployment is the main source of macroeconomic disequilibria. Alternatively, some collective agreements can codify automatic indexation to inflation and productivity, and this configuration that might appear unable to react effectively to new macroeconomic shocks. This case was quite frequent in the 70s and 80s but that nowadays the majority of developing countries are suffering from the opposite disequilibrium: productivity increases mainly feed profit increase and relative prices decline but only marginally wage increase. The likelihood of this third configuration is now quite small in most developing countries.

Figure 9 – A growth diagnostics approach to employment creation



Consequently, each country has to find is own mix between security and flexibility. At this level of generality, we find configurations that fulfill the same objective as the flexicurity model, but with totally different institutional settings, since productive structures, social values and political choices significantly differ from one country to another. Even within the same national economy, one could observe the coexistence of defensive flexibility – i.e. via wage reduction and work intensity increase – in some clusters along with offensive flexibility in others where the building of individual and collective competence is the main answer to technical change and the evolution of world competition (Vijayabaskar, 2005).

What are the methods in order to promote decent work?

A brief retrospective analysis of contemporary developed countries suggests that the high security levels have been reached by a long term historical process. The very unfolding of industrialization, sometimes called modernization, has triggered large social transformations that generated new forms of insecurity (industrial injuries, unstable employment, obsolescence of traditional skills, and volatility of income). The workers were hurt by these structural changes and they have thus voiced social demands in favor of mechanisms restoring a form of security. Similarly, the major economic and financial crises, as well as world wars, have strengthened the bargaining power of workers, in position to express strong demands of protection to States and governments. As a consequence, rights to security have been embedded simultaneously into labor laws passed by governments and into collective agreement negotiated between business associations and workers unions. In spite of some social deregulation, developed countries continue to exhibit high level of workers security (see table 4, infra).

As previously mentioned, few developing countries actually experience such a process of industrialization, with the noticeable exceptions of China and India. Therefore, most developing countries have to follow other paths in the direction of a better worker security (table 3).

- International organizations, especially ILO, are in charge of designing and diffusing some basic labor standards via the use of international conventions. This process is quite useful in analyzing the diversity of national experiences and creating a community in charge of diffusing these international norms. Nevertheless, national governments may or may not sign up these conventions. Even when these conventions exist, their implementation is entirely left to the initiative and interest of national governments. These international pressures become more effective when they are taken in charge by group of domestic actors who ask for the explicit recognition of these international labor norms.

- Given the key role of transnational corporations, one could imagine that their long term interests have to cope with a decent approach to labor management all over the world. If their consumers are ready to pay a premium in order to be sure that ethical norms are respected when production is delocalized all over the world, such an equilibrium may be self fulfilling. Nevertheless, it is not sure that such a virtuous circle – the consumers of the developed world disciplining the multinationals – can be generalized and that it is strong enough to replace the role of hard law in Western countries (Levis, 2006; Lobel, 2006).

- Non governmental organizations could complement the two previous mechanisms. First, they can report to the international organizations the degree of fulfillment of international labor norms and thus help enforcing them by “blaming and shaming”. Second, they can organize discussions and bargain with transnational corporations, and they are well equipped in order to do so since most NGOs are trans-national too. The difficulty is that a plurality of NGOs with different and sometimes contradictory objectives cannot replace the centrality of national governance and cannot be a substitute for a true power of coercion power of a unified, but non existing, world government.

Table 3 – The paths to workers security

WHAT CONDITIONS WOULD FAVOR DECENT WORK?	
• Business codes	Corporate Social Responsibility (CSR)
• National labor law	° Scarcity of workers
• Collective voice of workers	° Full employment
• Social conflicts	
• Social compacts	

The mobilization of domestic actors is therefore crucial, since business codes, corporate social accountability, social compacts are only partial substitutes for the process generated by hard law, as observed in old industrialized countries.

Some developing countries do succeed

In the light of the previous arguments, it is not really surprising if the global index of economic security, elaborated by the ILO Socio-Economic Security Programme shows that the majority of best performers does belong to OECD (Table 4). The only exceptions are four Eastern and central European countries and this can be interpreted as a legacy of the order inherited from the Soviet type regime, where State was warranting a strong security to workers in exchange of compliance to political authorities.

No developing countries are part of the group of pacesetters , but Mauritius, South Africa, Costa Rica, Chile, as well as Estonia, Lithuania, and Slovakia belong to this group: in terms of outcomes these countries are quite successful in spite of a poor score on inputs and processes governing worker security.

The majority of other countries belong to a fourth group characterized by low effective security and low institutional mechanisms to obtain it. Most African countries are part of this group, as well as some Latin-American countries. China and India are present in this group too and this is an important finding: *per se* high growth is not sufficient to promote worker security. Nevertheless, growth generates many unbalances and social unrests that implicitly at least raise the issue of the implementation of decent work.

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Table 4 – Some developing countries are quite successful in enhancing security

	High score on Outcorne			
	High score on Input! Process		**Low** score on Input! Process	
	Pacesetters		**Pragmatists**	
Regions	**Countries**		**Countries**	
Africa and Middle East	Israel		Mauritius	South Africa
Americas	Canada		Barbados	Chile
			Costa Rica	United States
Asia	lapan		Australia	New Zealand
			Korea, Republic of	
Eastern Europe	Bulgaria	Latvia	Estonia	Slovakia
and Central Asia	Czech Republic		Lithuania	
	Hungary			
Western Europe	Austria	Luxembourg		
	Belgium	Netherlands		
	Denmark	Norway		
	Finland	Portugal		
	France	Spain		
	Germany	Sweden		
	Greece	Switzerland		
	Ireland	United Kingdom		
	Italy			
	Low score on Outcorne			
	High score on Input! Process		**Low** score on Input! Process	
	Conventionals		**Much-to-be-done**	
Regions	**Countries**		**Countries**	
Africa and Middle East	Burkina Faso		Algeria	Mauritania
	Congo		Benin	Morocco
			Burundi	Nigeria
			Congo, Dem. Rep. of	Rwanda
			Côte d'Ivoire	Senegal
			Egypt	Sierra Leone
			Ethiopia	Tunisia
			Ghana	Turkey
			Lebanon	Zimbabwe
			Madagascar	
Americas	Argentina	Panama	Colombia	Mexico
	Brazil		Honduras	Peru
	Ecuador			Venezuela
Asia	Philippines		Bangladesh	Nepal
			China	Pakistan
			India	Sri Lanka
			Indonesia	Thailand
Eastern Europe	Azerbaijan	Russian Federation	Albania	Kyrgyzstan
and Central Asia	Belarus	Tajikistan	Armenia	Romania
	Croatia		Georgia	Turkmenistan
	Moldova, Republic of		Kazakhstan	Ukraine
				Uzbekistan
Western Europe				

Source: IFP-SES database 2004.

Source: ILO (2004b), *Economic security for a better world*, p. 277.

CONCLUSION

This paper has tentatively challenged the conventional wisdom that the dynamism of employment is always and everywhere contradictory with the enforcement of some forms of security for workers. Three major arguments can be mobilized.

1. Contemporary theorizing drastically changed and now is recognizing the specificity of the wage labor nexus, by contrast with typical market relations. Consequently, a minimum security is required for good economic performance of firms and national economies.

2. Comparative analysis of OECD countries shows that an extended security promoted by welfare systems has not been detrimental to growth, innovation and job creation. Quite on the contrary, small open social democratic economies display a clear complementarity between security and economic performance, equity and dynamic efficiency.

3. Developing countries cannot immediately catch-up with the emerging standards of the flexicurity, but quite pragmatically they should look for the forms of worker security that is compatible with sustainable development. A priori, many different configurations might co-exist in response to economic specialization, social values and political choices.

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