

Labor Pains

The demands of the international marketplace are a force for better policies when factors are highly mobile. Globalization has been less decisive in changing policies affecting resources less free to migrate.

Factors of production differ in their ability to move across borders. Information and money zip from one part of the world to another in the blink of an eye. At the other end of the spectrum, land can't be moved at all. Labor seeks its international advantage slowly, restricted by immigration laws and our affinity for homeland, culture and family.

Most likely owing to workers' limited international mobility, the

World Bank's measure of labor flexibility doesn't improve as countries become more globalized—until we get to the top quarter. The most internationalized nations do give companies greater freedom to determine employment conditions, an indication of a link between labor policies and globalization. (See Exhibit 4.)

For now, these countries are the exception. Even in our globalizing era, many nations maintain laws that hinder the hiring and firing of workers. Job protection may sound appealing at first, but such policies impede workers' ability to compete. When companies face onerous labor regulations, they can't adjust quickly to new opportunities in the marketplace. They're often wary of hir-

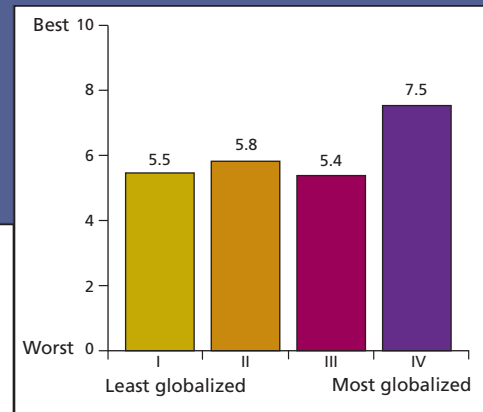
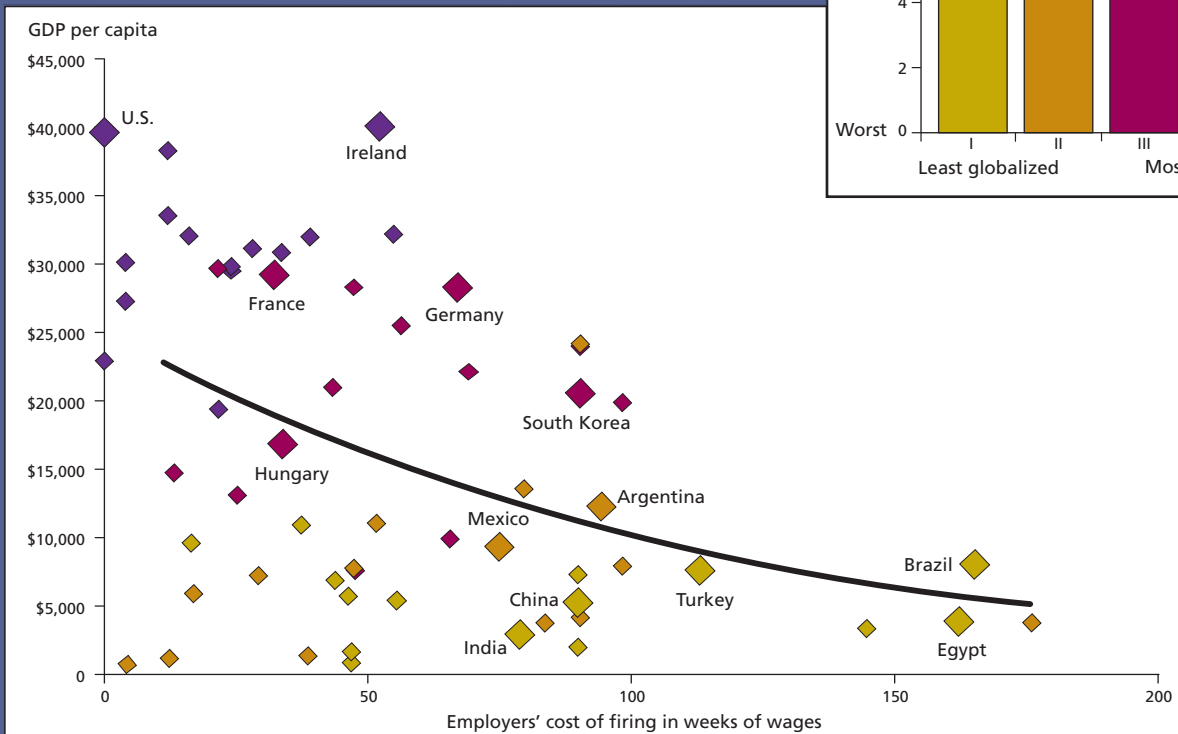
ing new workers, who will be difficult to shed if optimistic sales expectations turn sour.

Japan's insistence on preserving its tradition of lifetime employment has been a big reason its once high-flying economy languished for more than a decade after 1990. Germany's labor policies have retarded growth in what once was a locomotive for the global economy.

Countries with the most regulated labor markets tend to have lower per capita income. The World Bank reports that many nations impose huge burdens on employers that lay off workers—the equivalent of 165 weeks of pay in Brazil, 112 in Turkey, 90 in China, 79 in India. All are relatively poor countries.

EXHIBIT 4 Labor Market Flexibility

Highly globalized nations tend to allow greater freedom in hiring and firing workers (right). Increased labor mobility helps make these economies more productive and dynamic, leading to higher per capita incomes (below).



By contrast, countries that impose fewer burdens on employers are usually richer. The United States, for example, mandates no severance at all, allowing companies to determine their own policies.

Times may be changing. France's new labor laws, enacted last year, make it easier for small companies to hire and fire employees. One provision allows firms to lay off workers without cause during the first two years of employment. A third of Japan's labor force now consists of temporary and contract workers, up from 20 percent a decade ago. They don't hold lifetime employment rights. Germany, Italy and other nations have begun to debate labor reform, a sign that at least some of their leaders recognize being a global competitor requires the capacity to adapt quickly.

These changes are encouraging, but old-style labor policies have powerful constituencies. As a result, reform has been grudging and incremental, rather than sweeping. The less globalized countries still have a long way to go before they achieve the labor market flexibility seen in the United States and others toward the top of the A.T. Kearney index.

The persistence of labor market restrictions shows the journey from globalization to better public policies isn't complete. Countries will drag their feet. Many will resist calls to dismantle job protections and other popular regulations, even if leaders recognize what must be done. The direction of the march, however, can't be mistaken. The world is moving toward more market-driven economic policies, thanks in part to the demands of globalization.

