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CAPITAL'S RESPONSE TO GLOBALIZATION: "A COMPARATIVE ANALYSIS OF THE ADJUSTMENT PATTERNS OF MARK-UPS IN POST-LIBERALIZATION DEVELOPING COUNTRIES"

The Institute of Economics and Social Sciences
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ABSTRACT

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Master of Economics

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In this thesis, I investigate the capital's response to the new world economic order termed as "globalization". It is asserted in many theoretical and popular writings that increased pressures of global competition would squeeze the profit margins and reduce capital returns. I discuss this proposition theoretically and then test for it using manufacturing data for a selected group of developing countries under post-liberalization. I utilize time series and panel data econometrics to study the behavior of markups (gross profit margins) against wage costs, trade openness, and investment share in the GDP as a proxy for capacity utilization. Contrary to expectations, I find no significant conclusive evidence on the sign of "openness" on profit margins in many countries of my sample. My results also reveal that though mark-ups are negatively related with real wage costs in most of the Latin American countries in my sample, they have a positive and statistically significant relation to real wage costs in Turkish manufacturing. Finally, investment shares and mark-ups reveal a negative relationship for Argentina and Turkey and a positive one for Colombia.

Key words: mark-ups, profit margins, globalization, distribution, manufacturing industry

ÖZET

SERMAYE'NİN KÜRESELLEŞMEYE YANITI:
"LİBERALİZASYON SONRASI GELİŞMEKTE OLAN ÜLKELERDE BRÜT KÂR MARJLARININ DÜZENLEME PATERNLERİNİN KARŞILAŞTIRMALI ANALİZİ"

Buturak, Gökhan

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Bu tezde, sermayenin küreselleşme olarak adlandırılan yeni ekonomik dünya düzenine yanıtı araştırılıyor. Çoğu popüler yazında, artan küresel rekabet baskılarının kâr marjlarını daraltması ve sermayeye dönen payı azaltması vurgulanır. Bu çalışmada, belirtilen önerme tartışılıp, seçilmiş bir grup gelişmekte olan ülkenin serbestleştirme sonrası imâlât sanayi verisi kullanılarak test edilmektedir. Bu bağlamda, brüt kâr marjlarının maaş maliyetlerine, ticari açıklığa ve kapasite kullanımına yaklaşım olarak kullanılan yatırımın gayrisafi yurtiçi hasıladaki payına karşı davranışını ortaya koymak için zaman serisi ve panel data ekonometrisinden faydalanılmaktadır. Beklenilenin aksine, örneklem olarak alınan ülkelerin çoğunda dışa açıklığın işareti üzerine hiçbir anlamlı sonuca varılmamıştır. Sonuçlar, örneklemimde yer alan çoğu Latin Amerika ülkesi için brüt kâr marjlarının maaş maliyetleriyle eksi illişkilendiğini ortaya koysa da Türkiye imâlât sanayii için bunların istatistiksel olarak anlamlı bir şekilde artı ilişkilendiğini göstermektedir. Son olarak, yatırım payları ve brüt kâr marjları Arjantin ve Türkiye için eksi, Kolombiya için artı yönlü bir ilişki ortaya koymaktadırlar.

Anahtar Kelimeler: Brüt kâr marjları, kâr marjları, küreselleşme, bölüşüm, imalât sanayii

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CHAPTER 1

Introduction

In this thesis, I investigate the capital's response to new conditions set forth by pressures of globalization in selected developing countries. Globalization, in its narrowest economic sense, entails a process of integration of the domestic commodity and financial markets with the world market at large. Alleged by the neoclassical scholars, the increased pressures of international competition would squeeze the profit margins and reduce the rate of return available for capital. For a well-functioning competitive market economy, the Hekscher-Ohlin model predicts, for instance, that profits are negatively correlated with the degree of openness of the economy if the sector is capital-intensive (see, e.g. Roberts and Tybout, 1996). In fact, a well-known proposition of both the classical and neoclassical economics is that profits ultimately vanish in a "well-functioning" market economy.

That these *a priori* theoretical presumptions fail to hold for a large sample of countries in the aftermath of their liberalization attempts is well-documented. Since the extensive inception of the neoliberal programs of structural adjustment and external liberalization in the late-1970s, the share of labor in national income is observed to have serious setbacks. It fell, for instance, from 48% to 38% in Chile, from 41% to 25% in Argentina, and from 38% to 27% in Mexico (Veltmeyer, 1999). During this era capital launched a direct assault on wage labor against its

wage remunerations, working conditions and benefits, as well as its capacity to organize and negotiate contracts (Petras and Veltmeyer, 2001).

What this evidence suggests is that capital could have the means and power to adapt to the new conditions of intensified competition so as to be able to secure its rate of return and to protect –and even to expand— its share in gross output. As Meszaros puts it, "the crucial condition for the existence and functioning of capital is that it should be able to exercise *command over labor*... Without it, capital would cease to be capital and disappear from the historical stage." (Meszaros, 1995: 609, *italics* original).

Under these circumstances, "flexibility" in production patterns conduced a viable opportunity for the capitalist to enjoy profits and/or to survive in the market by tidying the composition of its production and distribution patterns. In a classical sense, the main tool for the capitalist for adaptation to the changing market environment is labor saving techniques, which work through regressing the labor's share in output either by labor shedding, in other words, reducing the number of employees and increasing the intensity of work for the remaining workers to reach increased productivity gains, or repressing the labor costs via adjusting wages in a band of subsistence wage level and value-added per worker.

Thus, my underlying hypothesis in this thesis is based on the classical notion that resolution of the distributional conflict is prior to accumulation and production, rather than the orthodox (neoclassical) presumption that the distributional patterns are passive outcomes of the underlying technology and the contemplation that profit is a payment/return to a scarce productive factor, capital. Hence, rather than interpreting the realized factor shares as neutral outcomes of the free interplay of

competitive market forces with technology, I regard profit as a politically and socially determined entity that is created, extracted, and distributed by the authoritative/administrative actions, given the socioeconomic and structural parameters. For capital such adjustment processes are completed via *surplus extraction* and *surplus creation*, where the former term indicates the capitalist's ability to sustain its own share over wages and other costs, and the latter term indicates a process of rearrangement of surplus through administrative actions of organized capital and the state (Yeldan, 1995).

It is the purpose of this thesis to discuss theoretically the patterns of distribution and then investigate empirically the patterns of adjustment of capital returns against forces of global competition. In the theoretical discussion, I present various models of structural change and discuss their results within power relations and institutional adjustments. In the empirical investigation of behavior of capital returns against forces of global competition, I use manufacturing sector data for a group of post-liberalization developing countries, and utilize time series and panel data econometric methods to deduce hypotheses on the patterns of external liberalization, wage costs, and profitability of Argentine, Chilean, Colombian, Mexican, Venezuelan and Turkish manufacturing sectors. The period under analysis comprises the liberal policy implantations, which brought in phases the demolition of international trade and financial barriers in the aforesaid countries. In this period, the distributional patterns between wage-labor and capital have been reshaped due to those structural changes and as a sector carrying these patterns of transformation, manufacturing industry is an eligible focal point for analysis. As an empirical measure of capital's rate of return, I utilize the mark-up rates (gross profit margins

over costs), defined as the ratio of total profits to total costs of wages and intermediate inputs. In the absence of reliable capital stock estimates, this variable provides a good proxy for the *rate* of profit.

The plan of the thesis is as follows: in the next chapter an assessment of theories within distributive framework under different settings will be made. Then in chapter 3, I provide a broad overview of the history of macro adjustments for the countries in my sample. I introduce my econometric methodology in chapter 4, and analyze my empirical findings in chapter 5. Chapter 6 summarizes and concludes.

CHAPTER 2

A Theoretical Assessment of Distribution

The purpose of this chapter is to discuss theoretically the patterns of distribution. In this sense, I will present various models illustrating structural change and discuss their results within power relations and institutional adjustments. In order to prepare the reader for the models that will be discussed later on, I will narrate theories of value and prominence of market structure and its implications as preliminaries to the chapter.

2.1 Preliminary

2.1.1 Theories of Value

In order to review the theoretical models regarding distribution, it is convenient to overview the theories of value since distributional explanations are constructed on different theories of value. As Marx (1973) points out,

> "In order to develop the concept of capital, it is necessary to begin not with labor but with value, or more precisely, with the exchange value already developed in the movement of circulation. It is just as impossible to pass directly from labor to capital as from the different races of men directly to the banker, or from nature to the steam engine."

The main theories of value are the Marxian theory of value and marginal theory of value. I will overview them as briefly as possible in the following subsections.

2.1.1.1 Marginal Theory of Value

Marginal utility theory goes back to Jevons. The main argument is on the scarcity of resources, that is, value is derived from the scarcity of the commodity: any additional amount of the commodity is valued at declining utility terms; unless the commodity is scarce, all increments of the commodity in consideration would have little or no value. Yet, the use value and exchange value of the commodity are defined as the subjective link between the individual and the commodity by the marginalist theorists (Mandel, 1974). Quoting Mandel (1974) on the theory of marginal utility,

> "A man obviously has more need of bread and water than of a diamond. Yet a diamond has a higher exchange-value than that of bread. A man has even more 'need of air', which normally possesses no exchange value. This is why the neo-classical theory states: it is not the intensity of the need in itself, but the intensity of *the last fragment of need not satisfied* (of the *marginal* utility) that determines value."

Taking capital and labor as commodities exchanged on the market, the value (or the reward) attributed to these factors of production will be determined just the same as a commodity valued by the exchange process in the market. That is, contribution of any additional labor or capital will be assessed as the rewards of the respective factors in the production process, just as in the exchange process; i.e., the value of the commodity is determined by the contribution of additional amount of any commodity to the utility of the individual. In this sense, marginalists identify factor rewards as the *marginal contribution of the factor of production to the production process.* Thus, marginal productivity theory contends that in equilibrium each productive agent will be rewarded in accordance with its marginal product as measured by the effect on the total product of the addition or withdrawal of a unit of

that agent, the quantity of the other agents being held constant. In the end, the whole system is in perfect static equilibrium, "profit" itself having disappeared since under conditions of perfect competition the value of the marginal product - which determines the value of all production- is dissolved into depreciated capital, wages, interest and round-rent (Mandel, 1974) as asserted by Flux's product exhaustion theorem (see, e.g. Dobb, 1973). More clearly, the marginal cost *should* determine the exchange value, or say price, of the commodity.

The theory of marginal productivity had been preponderant along the debates of the economic circum of late nineteenth and early twentieth century. One of the main counterarguments was that marginal rewards were immeasurable and even unobservable. For a long time, the marginalist school was unable to determine the marginal value of capital goods. In the end, it managed to do this only by introducing, with Böhm-Bawerk, the notion of a *roundaboutness* of production, which becomes more and more intensified as capital goods increasingly enter into the process (Mandel, 1974).

Another controversial attack was from the Cambridge School, which is named as the renowned Cambridge Controversy. Joan Robinson (1956) stressed on the unaccountability of the total capital accrued in the economy which in turn determines the capital remunerations. In other words, the stock of capital in an economy cannot be measured without knowing the rate of interest and hence the production function cannot be used to determine the rate of interest as the marginal product of that capital.

2.1.1.2 Marxian Theory of Value

Marx uses *value* as not to refer to the use or exchange value merely; the word *value* (sometimes Marx calls it *commodity value*) is used by Marx in a very specific meaning as the aspect of a commodity which allows it to be exchanged on the market. *Value* is not an ethical category, and it also does not indicate a subjective valuation (how much someone values something); indeed Marx uses this word to denote an economic category which finds its expression in the market price (Ehrbar, 1998). The word *value* has this specific meaning throughout his work Capital.

Marx relates the use value and exchange value by alienation and appropriation processes of the commodity in the market. In his own words,

> "Well, how does use value turn into a commodity? By being a bearer of exchange value. Although they are immediately united in the commodity, use value and exchange value equally immediately fall asunder. Exchange value appears not determined by use value and, moreover, the commodity only becomes a commodity, only realizes itself as exchange value, to the extent that its owner does not relate to it as use value. Only by alienating it, by exchanging it for other commodities does he appropriate use values. Appropriation by means of alienation is the basic form of the social system of production of which exchange value appears as the simplest, most abstract expression." (Marx, 1973)

Marx, different from the marginalists, isolates the "substance" of value from the "forms" in which value presents itself to the economic agents. The substance of value originates from the objective means of existence of that commodity, production; whereas the facets of this substance are related to the subjectivity of individuals and their interactions. Marx distinguishes between three *determinations of value*: its substance, its quantity, and its form. The *content* of these determinations is human labor in the abstract (i.e., the expenditure of labor-

power), socially necessary labor time, and a social relation (i.e. the interactions of a commodity-producing society).

The commodity in the production process amends in terms of value with the attribution of value by the intangible labor power, which is the abstraction of human labor into something that can be exchanged for money. The relation of labor power to the actual labor of a private individual is analogous to the relation of exchange value to use value. The exchange value of labor power is bought and paid for by the capitalist, but what is actually skipped by the capitalist is that the use value of labor is not paid at its full value. That is, laborer gets the *natural remuneration* that the market finds apt and is enough for replenishment of the laborer, but creates an economic surplus more than he is rewarded. Consequently, the worker is exploited insofar as the capitalist appropriates the surplus created by the laborer in the production process as the reward or profit.

2.1.2 Market Structure

Market structure before and after the implementation of neoliberal programs of structural adjustment forms the evolution of distribution between labor and capital. With external openness and deregulation, it is expected that indigenous markets become more competitive and thus the distributive patterns between capital owners and labor will adjust to a new rule that is perceived as the efficient and natural allocation rule (see, e.g. Obstfeld and Rogoff, 1996). The new equilibrium reached now with more actors in the producer-side of the market is supposed to be the end result of the responses of actors of the markets, i.e. capital owners and workers each implementing their *non-strategic-interdependent decisions with no*

blocking coalitions (see, e.g. Green et al., 1995). Hence, returns to factors of production are closer to the naturality of what classical marginal theory puts forward as reflecting the marginal contributions to production.

However, in real life markets do not work competitively to assert marginal pricing of factor contributions. Existence of such markets is dubious that standard textbooks give examples of auction-like instantly adjusting markets as stock exchange markets (see, e.g. Green et al., 1995). Even if marginal pricing holds, there is the issue of measurement as pointed out Robinson (1956) and other Cambridge scholars: Whose marginal contribution is in what amount?

Moreover, the dense market dynamics with many producers do not guarantee the perpetuation of competition since firms form blocking coalitions and hierarchical networked structures. As intensified in the last decade, mergers have been occurring between firms in order to internalize the negative externalities generated by competition. Tier relations as hierarchical networked structures are sources of noncompetitive market formations as well where there appear few firms with no productional activities at the top of the organization with many supply chains at the sub-organizational levels (Gereffi, 1999). Even without any merger or tier relation, it can be said that a mechanism of natural selection would probably shrink the market with eliminating the weak firms and strengthening the existence of strong firms which maintained widespread availability, brand popularity, customer trust, and on-the-front technological position. Sweezy and Baran (1966) in their classical work 'Monopoly Capitalism' and Dobb (1967) emphasize the role of advertisements as sources of gaining immunity for the firms to survive in the market via creating and perpetuating effective demand for the commodity produced.

Moreover, Galbraith (1967) draws attention to the stock structures of largest corporations in the United States, while Dobb (1967) narrates this fact for United Kingdom, where ownership of these corporations are concentrated in less than one percent of total stockholders.

As a result, other than taking the competitive market structure as granted, I will review on some other market structures in order to determine the model that will be utilized in the empirical study which will appear later on. The Marxian analysis of capitalism rests on the assumption of a competitive economy. However, Sweezy and Baran (1966) put forward that capitalism has undergone a qualitative change by turning into monopoly capitalism. Marx, as Sweezy and Baran (1966) narrate, treated monopolies not as essential elements of capitalism but rather as remnants of the feudal mercantilist past which had to be abstracted from newborn capitalism in order to attain the clearest possible view of the basic structure and tendencies of capitalism. However, some parts of *Capital* refer to capital competition and to the elimination of competition by way of competition, i.e. to the centralization and concentration of capital (Mattack, 1978). For Baran and Sweezy (1966), there should be a fundamental structural change in the Marxian analysis of capitalism, from competitive to monopoly capitalism.

On the other hand, Kalecki, and thus new structuralists, used oligopolistic market structures in their models. The main upsurge of oligopolistic market structure is that markup pricing rule represents the price setting behavior of such a market structure although the standard neoclassical textbooks narrate this as approximation to the oligopolistic price setting. Using markup pricing is also

Marxian in the sense that Marx defined prices as the total cost of production plus the profit.

To summarize, competitive market ceases to disappear with the diminishing number of market actors with certain mechanisms in order to perpetuate the profitability within the market. In any case, a neoclassical framework is worth of considering for demonstration of the distributive process in a fictive economy where markets are competitive and thus production is carried on with decreasing returns and marginal factor payments are used as the distribution rule. Presenting such a fictive economy necessitates presenting other setups with different market structures. Proceeding section and its subsections will try to narrate these model, power relations, and deregulation of markets as the altering factors of the distributive patterns between capital and labor.

2.2 Trade Liberalization and Distribution

This section will try to demonstrate the trade liberalization and its consequences in terms of distribution between capital and labor with models constructed under different market structures and assumptions. The basic tenets of each model will be discussed and then an assessment on distributional outcomes will follow for each model.

2.2.1 A Neoclassical Setting under Decreasing Returns

According to classical theories of international trade, trade exposure does appear to exert additional competitive pressure on markups either because it reduces the economywide returns to capital or because it disciplines noncompetitive pricing

behavior. It is easy to show why this might not hold under a neoclassical intertemporal production setting with decreasing returns. Assuming two countries, one with high capital intensity and the other with low capital intensity, a standard Cobb-Douglass production function satisfying Inada conditions, Hicks-neutral technology and marginal factor payments, capitalist's problem can be stated as:

$$(1)\ \max_{K,L} \sum_{s=t}^{\infty} (1/(1+r))^{s-t} [A_s F(K_s, L_s) - w_s L_s - r_s \Delta K_{s+1}]$$

The problem states that the choice of the capitalist is at a point where the marginal contributions of the factors of production are equal to the remunerations of each factor of production and further points pull the marginal contributions of the factors of production below their remunerations. Rearranging the equation in terms of capital per labor, first order conditions, which reflect the marginal factor payments, imply the following relations:

$$(2)\ A_s f'(k_s) = r_s$$

$$(3)\ A_s (f(k_s) - f'(k_s) k_s) = w_s$$

The concavity of the production function ensures that the country with high capital intensity will surely have low returns to capital so that there appears an arbitrage condition between two countries, leading to flow of capital from capital-intensive country to capital-scarce country and eventually returns to capital equalize. Moreover, labor remunerations in the backward region will be lower compared to the other region. Thus, pressures of more gains due to high return to capital and low wages in the backward region will mandate the rules of the game: External liberalization with market deregulation. Consequently, integration with world markets, i.e. external liberalization with market deregulation, will increase

the number of firms in a particular industry competing with each other, which in turn conduces to a shift from noncompetitive pricing with higher profits to competitive pricing with low profits. On the other hand, labor remunerations have the trajectory stated as equation (3). Log-differentiation of equation (3) and rearranging terms will give the relation between growth of wages and technology growth, growth of capital stock and growth of returns to capital.

(4) $\hat{w}_s = 2\hat{A}_s - (1-2\alpha)\hat{k}_s - \hat{r}_s$

Equation (4) states that there is a negative relation between growth of wages and growth of capital stock per labor and growth of returns to capital. Technology, in this setting, remains to be positively related to wages in accord with the assumption that it is Hicks-neutral. Changing this assumption to Harrod-neutrality, however, alters the relation. The implication of this alteration stems from the question of whether technology increases capital's productivity alone, or labor's productivity alone, or both. To put it mathematically, following the same procedure, we get the Harrod-neutral version of equation (4):

(5) $\hat{w} = 2(1-\alpha)\hat{A} - (1-2\alpha)\hat{k} - \hat{r}$

Rearranging terms yields to the growth of returns to capital in terms of growth of wages, technology and capital.

(6) $\hat{r} = 2(1-\alpha)\hat{A} - (1-2\alpha)\hat{k} - \hat{w}$

Equation (6) reveals that keeping returns to capital or increasing it in the existence of competitive pressures is possible through technology improvements, wage reduction, and capital retardation (or labor saving, since k is capital to labor ratio). The orthodox rhetoric states that distribution of economic surplus is a natural

outcome of the free interplay between capital and labor, i.e. the decisions of capital owners and workers made intertemporally. Under this fictive neoclassical setting, however, a political assessment on the investigation of how capital owners responded to external liberalization wave can be narrated through this equation with the analysis of each variable in equation (6).

Capital Formation

Assuming that labor used in the production is fixed, appending new capital would lower profits as stated mathematically in equation (6) that the relation between profit rates and capital formation per labor is negative. Thus, response of capital owners to increase profits would never be appending new capital to existing capital in this fictive economy. Capital accumulation in the economy would, however, be in terms of foreign direct investment since the profit rates are desirable in the backward region, and thus indigenous capital owners would face with competition. As Lucas (1990) speculates on the capital outflow in developing countries saying that capital inflows are deliberately impeded in developing countries in order to keep the profit rates high and wage rates low, capital flows were not observed in developing countries contrary to what the neoclassical theory suggests. Even, the observed type of foreign direct investment is either in the form of equity buying or in the form of merging, which do not contribute to domestic accumulation of capital (Petras and Veltmeyer, 2001). For the indigenous entrepreneur, however, reluctance to increments to capital can be explained by Kalecki's (1943) 'principle of increasing risk'. According to the principle of increasing risk, the subjective risk to the firm of increased indebtedness rises with every increase in the amount of borrowed capital relative to equity capital. Thus,

capitalist stands reluctant to append new capital, so that we expect a low level of capital formation.

Technological Advancement and Foreign Direct Investment

Technology improvements are costly since the massive initial infrastructure of research and development is costly, which then forms reluctance to indulge in such activities. Dissemination of technology is possible theoretically, however, if firms are subject to external economies. Technology imitation is possible as well through learning, regional proxy and labor turnover, as suggested in the literature on foreign direct investment (see, e.g. Aitken and Harrison, 1999), if not through patent and license agreements, which is in fact costly. Actually, a suggested driving force for both capital formation and technology improvements to progress in this setting is foreign direct investment.

For the alleged flows of direct investment due to the return differentials between two regions and its potential benefits, we have to look into the items that are listed as potential benefits of capital flows. According to the literature on foreign direct investment, the potential benefits of foreign direct investment are as follows:

- Employment effect
- Technology transfer to indigenous firms via some sort of spillover channels
- Productivity increase for domestic firms
- Employee training through on-the-job learning
- High wage spillovers

The first item in the list is an undeniable fact that every new plant forms employment possibilities. Coming to technology spillovers, we see that the most mentioned benefit of foreign direct investment is this one. However, attaining technology through learning and regional proxy is particularly realistic, that is, such technology transmissions can be valid in sectors using non-esoteric technology with low complexity but not in the sectors using high-tech production technology. In other words, technology today is an intangible economic good that is marketed globally via patent rights that most of the firms buy technology if not counterfeit. Indeed, the transmission is mainly on managerial channel, not on technology; that is, indigenous firms learn how to better manage from the foreign firms. Thus, productivity increases are via labor-saving since competition drives cost reduction, which makes the high wage spillovers redundant in the list. In addition, competition may wipe out small domestic firms causing an undesirable change in market concentrations leaving a small bunch of dominant firms in the sector, which share the noncompetitive rents. Consequently to say, expectations of technology transmissions, higher wages, and capital accumulation etcetera after external liberalization seem not viable.

Wage Reduction

Ways of securing profits such as technology improvements, capital formation either domestically or in the form of foreign direct investment were told to be either ineffective or unattractive. Hegemony, to be the dominative while exonerative, finds itself to suppress the share of subordinate classes in hard times to the level where there appears arbitrary risk of appropriation.

Thus, what remains in this setting as the plausible way of erecting profit trend for the capitalist within an environment of increased competition is to lower the share of labor, i.e. surplus extraction; or to do it via the help of state, i.e. surplus creation. In other words, trade liberalization in developing countries should be accompanied by institutional adjustments in order to nourish the infant exporting sectors. The institutional shifts will be discussed later as a section since it is not the main issue at this point.

2.2.2 Economies of Scale and External Economies of Scale

A further discussion can be carried on with changing the assumption of decreasing returns to increasing returns with external economies as emphasized by Krugman (1990). The essence of scale economies external to firms added to the standard setting is that unit capital and labor requirements of firms decrease as the level of capital used in the industry increases but with individual firms' unit capital and labor requirement remaining constant. Thus, productivity increases occur only through new entrances into the industry. In this spirit, Krugman (1990) sets a two regions model describing trade patterns and factor shares in the spirit of Lenin's claim of *two stages of capitalism* mentioned in 'Imperialism'. Each region has two sectors -manufacturing and agricultural sectors-, and has non-growing labor force. The assumption that labor force is fixed implies that there exists a maximal amount of capital that can be used in manufacturing sector, and the region with higher capital growth, i.e. with higher profit rate due to increasing returns, will eventually exhaust the labor force in the economy. Thus, there will be a second phase in trade of capital flows equalizing profit rates, i.e. a fall of profit rate in the developed

region following an increase of profit rate in the backward region. This might even mean the industrial region begin to import labor since dynamics of such a setting results in deterioration of wages in less capital intensive region while workers in more capital intensive region enjoy higher wages, what Krugman calls them as 'labor aristocracy'. After all, the model assures that Lenin's (1934) claim of two-stages of capitalism indeed holds.

What differs in this setting from the previous discussion is that the laws of motion of profit and wage rates are determined through the initial difference in the capital levels of the regions which grounds the uneven development between two regions. When the first-starter fully industrializes, she will be in need for external liberalization in order not to stay in a routine production vicinity with profit rates and thus interest rates go down to zero as Schumpeter (1989) narrates. Technology in the model is as a result of increasing returns with external economies rather than a shifter from a stable and routine production point to a new unstable point in a decreasing returns production scheme.

Krugman's model explicates the uneven development and historical accumulation for external liberalization though some of the results do not match with the historical facts. Simply, there would be huge demographic flows from the backward region to the industrial one since economies of scale is in effect, but we do not see such huge flows, contrarily we see restrictions to demographic flows and unemployment problem in the industrial region. Moreover, capital may not flow in this setting if labor is mobile since economies of scale is in effect, that is, increasing capital in the industrial region further sustains profit rates with the flow of labor

from the backward region while there is still low levels of profitability in the backward region.

2.2.3 Heterodox Models

The last thirty years' of economic analysis is dominated by the orthodox views while having a neoclassical macroeconomic underpinning. The alternative theories of the 20th century classics seem to have been forgotten. The very core motifs of these classics are the theory of value and factor payments. The Marxian and Keynesian influences are characteristic of these writings and even of today's heterodox camp. The Marxian tradition goes back to Lange, Mandel, Baran, Sweezy and Dobb. The British-Cambridge scholars like Robinson, Kalecki, and Kaldor, however, blend the Keynesian and Marxian theories. Today's post-Keynesian views stem from the aforementioned Cambridge scholars while today's Marxian economists follow Mandel, Baran, Sweezy and Dobb.

Post-Keynesian Theories of Distribution

Post-Keynesian models of distribution are not easily accessible. In particular, there is not a single post-Keynesian model, but a whole variety, with different, sometimes contradictory assumptions. For instance, Kaldor assumes full employment, which is denounced as "more neo-classical than neo-Keynesian" (Marglin, 1984). Kaleckians emphasize the role of variable capacity utilization, whereas this has not been an issue for Robinson's equilibrium analysis (Stockhammer, 1999). But at the very core are an independent investment function and saving propensities that differ between income classes (i.e. Kaldorian savings

equation) in these writings. Thus the distribution of income between capital and labor plays a crucial role.

Despite the fact that the building blocks of post-Keynesian models differ, prominent ones can be summarized briefly. For Kalecki (1943) the profit share, and inversely the wage share, is given by the degree of monopoly, which in turn is determined by the degree of competition, the extent of non-price competition and the organizational strength of labor. Hence the real income distribution is determined by structural factors that are fixed in the short run. He also proposes that savings propensities of labor is zero, but as Pasinetti (1962) did, it can be modified as saving propensities of workers are low compared with that of capitalists. Accordingly, Kaldor (1980) perceived forced savings as the main determinant of saving scheme in the economy, which is a consequence of relative autonomy of the state.

The Kaleckian model of distribution in a Keynesian fashion delineates that output growth is inversely related with the profit rate and saving propensity of capital owners. This simplistic model proposes that more share of the profit should turn into investment in order to sustain growth while attaining a sustained or increasing profit rate. As a demonstration following Stockhammer (1999), the supposed relation can be derived from equations (7), (8) and (9).

(7) $Y = I + wN + C_R$

(8) $S = s_w(Y - R) + s_R R$, in the simplified form, $S = s_R R$

(9) $Y = I + (1 - \pi)Y + (1 - s_R)\pi Y$

where Y, I, S, s, w, R and N, following conventional notation denote income, investment, savings, saving propensities, wages, profit and employment

respectively and $\pi = R / Y$, the exogenously given profit share, and C_R the consumption by capitalists. At the equilibrium level of income we get the Kaleckian multiplier,

(10) $Y^* = (1/s_R\pi)I$

Stockhammer (1999) further constructs two variants of Post Keynesian models that circumfuse distributive features between capital and labor. The variance between the models stem from the aforesaid differences in assumptions. The first of these models narrate the Kaldor-Robinson contemplation of distribution. The economy is assumed to operate at full capacity although there is not an assumption of full employment for the Robinson type model; savings are in the Kaldorian fashion; and finally investment is determined by the level of profits. With the assumption of full capacity utilization, Stockhammer (1999) shows the clear tradeoff between wages and profits, and output growth, thus profitability, is inversely related with savings out of profits and wages. With introducing the assumption of variable capacity utilization, however, the economy is not on the possibilities frontier and thus there is not a direct tradeoff between wage income and profits.

The second model, the one in Kaleckian fashion, assumes oligopolistic market structure since oligopolists can maintain idle capacity due to irreversibility of investment projects, flexibility in the face of changing economic conditions, or indivisibilities in the production process. Nevertheless, the assumption of under-capacity is not valid if the market structure is other than oligopoly or monopoly, i.e. markets under monopolistic competition or perfect competition. Again

following Stockhammer (1999), the basic structure of the economy can be identified with the following equations.

(11) $I/K = a + b\pi + cz$

(12) $S/K = s\pi z$

The equilibrium condition is satisfied with equating savings and investment condition, where z is the capacity utilization, Y/K; π is now the profit share, R/Y; and finally K is the stock of capital in the economy. The equilibrium values of investment and capacity utilization is,

(13) $z^* = (a + b\pi)/(s\pi - c)$

(14) $(I/K)^* = a + b\pi + c(a + b\pi)/(s\pi - c)$

The results of comparative static analyses demonstrate the negative relation between profit share and capacity utilization, yet the relation between capital formation, I/K, and profit share is not determinate. Stockhammer (1999) argues that there will be a positive capacity effect and a negative profit share effect on investment, what the net effect will be cannot be answered a priori; and thus, two regimes are possible depending on the relative strength of capacity and profit effects in the investment function. If the capacity effect outweighs the profit effect, growth of output is wage-led, whereas if the profit effect is stronger than the capacity effect, growth of output is profit-led (Stockhammer, 1999).

The implications of these models are that the negative relation between profit and wage shares poses the conflict between capital and labor. However, the Kaleckian model introduces a conditional statement for this relation with the assumption of variable capacity utilization. In political terms, the new conditions of external liberalization set forth by neoliberal transformation brings wage

suppression in Robinson-Kaldor model, whereas the model a la Kalecki necessitates the economy to operate at full capacity for such a relation strictly to hold.

Moreover, starting out from the antagonist relation between capital formation and profits, and the Keynesian demand leakage with the wage erosion, such writers as Crotty and Dymsky (2000) propose that global neoliberal regime pushed the world economy into a stagnant era accompanied by increased unemployment, rising inequality, and crises with severe outcomes.

Structuralist Models

Early structuralist economists such as Raul Prebisch mentioned how the evolution of terms-of-trade pauperized the third world, and prescribed that the production composition of third world should change in order to take them out of the vicious circle they are in. Due to lower income elasticities of raw materials than for industrial goods, the primary good exporting third world at the periphery faces with deteriorating terms-of-trade relative to the manufactured good exporting industrial center (Agenor and Montiel, 1999). However this interpretation and policy prescription would be effective in the long-run since the structure of the production has to be changed.

New structuralists, on the other hand, focused on the short-run defects of neoliberal policies and designed policies accordingly. Such new structuralist writers as Taylor and van Wijnbergen follow mainly Kalecki, Kaldor, and Cambridge scholars despite the fact that Taylor (1983) acknowledges the reader as to blend the ideas of many scholars besides the aforesaid names. The basic tenets of new structural perspective are more or less the same with the Post Keynesians

handled above. In a paper, Taylor (1990) identifies main hypotheses of structuralist view as,

> "1- Many agents possess significant market power.
> 2- Macroeconomic causality in developing world tends to run from injections such as investment, exports, and government spending, to leakages such as imports and savings.
> 3- Money is often endogenous.
> 4- The structure of the financial system can affect macroeconomic outcomes in important ways.
> 5- Imported intermediate and capital goods, as well as direct complementarity between public and private investment, are empirically important."

The main difference from the Post Keynesians is that new structuralists focus on structural adjustment mechanisms. Taylor (1983) lists the main structural adjustment mechanisms as follows:

> "1- Output meets demand, made up of autonomous elements like investment and output-sensitive components like private consumption.
> 2- Supply is fixed, so demand must adjust to it. One means through price changes that limit consumption (in the simplest model) to total output minus investment.
> 3- Some component of demand varies freely to bring overall balance – competitive imports or government spending are two possibilities."

In an economy where production requires labor, imported intermediate inputs and capital; wages, the remuneration of labor, are determined institutionally. The situation of the economy determines which alleged adjustment mechanisms listed above will be applied. But in demonstrational purposes, the basic adjustment mechanism can be showed following Taylor (1983). The first identity to be used is the markup pricing formula for an oligopolistic market.

(15) $P = (1 + \tau)(wb + eP^{*}a)$

P is the price of output produced domestically, P^{*} is the price of imported intermediate goods, τ is markup rate, w is the wage rate, b is the labor-output ratio, a is the imported intermediate good-output ratio, e is the exchange rate, X is output, C is consumption, K is capital stock, and finally s_R is saving propensity of capital

owners. Then comes the equation for profit rate; inserting the markup identity into profit rate –(15) in (16)- we get the compact form of profit rate which reflects the positive relation between markup rate, capacity utilization (u = X/K) and profit rate.

(16) $r = (PX - wbX - eP^{*}aX)/PK$

(17) $r = (\tau/(1+\tau))(X/K) = (\tau/(1+\tau))u$

The next step is to find the saving-investment balance of the economy. For this end, gross national product identity and consumption identity is molded to get equation (20),

(18) $X = C + I + E$ (there is no government in the setting)

(19) $PC = wbX + (1 - s_R)rPK$

(20) $g + \varepsilon - (\tau^{-1}\varphi + s_R)r = 0$

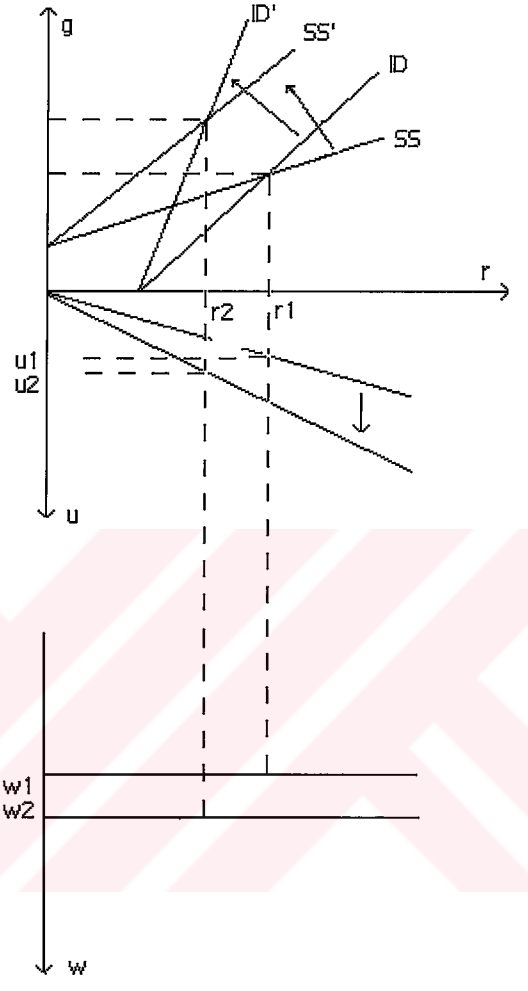
where g is capital formation, I/K; φ is the share of intermediate imports in variable cost; and finally ε is exports to capital stock. Investment demand can be written as,

(21) $g = z_0 + z_1 r + z_2 u$

Equations (20) and (21) govern the system as depicted in Figure 2.1. Moreover, real wage equation can be expressed with manipulations based on previous equations as,

(22) $\omega = w/P = (1 - \varphi)/(1 + \tau)b$

Figure 2.1 Effects of a Decrease in Markup Rate



Now think of an attempt to increase markup rate which simulates the reaction of capital owner in the face of competitive pressures of external liberalization. Then, with the system dynamics ruled by equations (20) and (21), the saving supply schedule –equation (20)- and investment demand schedule -equation (21)- rotate clockwise, while capacity utilization schedule rotate counterclockwise; thus, real wages contract. In political terms, capitalist prefers to make income

redistribution from wage earners to profit recipients. And, this is the craft of the capitalist to survive in the market.

For tractability reasons and subjective choice of the research, Taylor's model will be followed in the empirical testing of the hypothesis which will appear as a separate chapter in the proceeding text. With this empirical testing, I will try to demonstrate that the neoclassical hypothesis that increased competitiveness with the introduction of external liberalization would lead to decreased profits, and thus factor payments converge to their natural levels of what the classical marginal theory dictate is not valid under the political and social milieu. Thus, it is to be validated that profit is an entity that is created, extracted, and distributed by the authoritative actions within the borders of class interactions.

2.3 Financial Liberalization and Distribution

Capitalist mode of production inherently has the aspect of instability in the sense that there is no central planner who decides the next period's reproduction scheme. Profit remains the decisive factor of which commodity and how much to produce; thus profit becomes an end in itself, which then turns into the decisive factor that determines not only production but also reproduction. To quote Luxemburg (1951),

> "...Capitalist reproduction, however, to quote Sismondi's well-known dictum, can only be represented as a continuous sequence of individual spirals. Every such spiral starts with small loops which become increasingly larger and eventually very large indeed. Then they contract, and a new spiral starts again with small loops, repeating the figure up to the point of interruption. This periodical fluctuation between the largest volume of reproduction and its contraction to partial suspension, this cycle of slump, boom, and crisis, as it has been called, is the most striking peculiarity of capitalist reproduction."

In today's terms, the magnitude of business cycles, what Luxemburg calls them as periodical fluctuations, depends on some factors other than the gluts or

shortages that originate from the production decisions of individual firms. The increased inflows and outflows of money, which can cause bubbles in the economy, are other factors of increased business cycles. For the overall economy, considering both the real and monetary factors, Foley and Smith (2002) for instance explain price (in)determination by a model of thermodynamic economy, more precisely, of a model representing entropic inclinations of the capitalist economy.

That the increased circulation of finance capital in the last two decades is proven to cause increased cycles (see, e.g. Crotty and Dymsky, 2000). The past two decades have seen the construction of a globe-girdling network of financial centers and offshore financial havens. These centers and firms provided an infrastructure for financial speculation where the instability of exchange rates and interest rates in the neoliberal regime supplied the requisite motivation. With the changing structure of and innovations in financial intermediation, the role of financial markets has drastically changed.

Broadly speaking, there were three upsurges in international financial activity, and these can be listed as increased extent of international lending, financial innovation and financial agglomeration. The number and range of financial instruments have changed dramatically since 1960, and new problems of management and regulation have arisen with them. Most of these new instruments appear to be very esoteric instruments, which are difficult to understand, monitor or control.

Moreover, an important point to note about is that the recent growth of international lending has not just dramatically increased the range of capital

instruments, but changed the whole character of capital flows. Late 19th century lending was mainly long-term in nature, going to finance investment in real assets which is no longer so.

Increased global financial activity, flows of capital independent of the production process, and speculative profit search led to the emergence of financial crises, causing lesions on the developing economies. Injection of short-term financial flows, in other words hot money, into the so-called "emerging markets" by global rent-seeking capital was observed in the last two decades. In addition, the countries absorbing these short-term funds expand like bubbles, which in turn cause a kind of "pseudo growth" in these countries. At a point, creditors see the risk of insolvency and as a result of herding behavior, they immediately exit the economy. Consequently, the economy exhibits pendulum movements, having high growth rates before the crisis following negative growth rates after the crisis.

The impact of financial openness on the distributive patterns in production is not a direct one but it affects the shares of capital and labor through expanded amplitude and pitch of business cycles. The increased frequency of crises hurts labor shares severely. In times of trouble, firms respond to adverse market conditions by cost reduction and supply shrinkage. Cost reduction in this circumstance is made through wage reduction and labor lay-offs. Mainly, the encouraging rhetoric of capital in these times is that workers to remain calm and faithful and that they are in trouble as well.

Diwan (1999) portrays the after-crisis labor market conditions in his paper titled as "labor shares and crises". And his major findings are that the labor share usually falls sharply following a financial crisis, recovering only partially in

subsequent years, and the labor shares have been trending down in most regions over the past two decades, while Hecksher-Ohlin theorem predicts that wages in the poor country increases while wages in the rich country decreases after external liberalization. Besides this, Diwan (1999) also notes that profit rates also fall in the post-financial crisis period but the damage to capital is not as much as the damage to labor remunerations.

Moreover, exchange rate fluctuations form another source of changing the balance between labor and capital shares. Under flexible exchange rate regimes, the influx of capital into the domestic financial markets pulls the exchange rate down increasing the real wages in terms of foreign currency while domestic producers force for devaluation in order to gain competitive advantage and wage cost reduction.

Furthermore, for a market economy, competitiveness is important within its markets for it to work efficiently. However, crises wipe out medium and small-sized firms, with large firms remaining in the markets, which gain immunity and power. In line with this, remaining firms speak of the trouble they are in, which legitimizes wage reductions and labor lay-offs and consequently weaken the bargaining power of labor.

2.4 Power Relations Connecting the State and Capital

Power relations between classes within the society are further ingredients that form the distributional patterns among social classes. Power is associated with factors of production not directly but via ownership, and that among the factors of production only one contributes power to the owner: *capital*. Thus, production is

dominated by those who control and supply capital –by a constantly diminishing number of the magnates of capital who usurp and monopolize all advantages of this process of transformation (Marx, 1970). As a result, state, due to the need for an intermediary negotiator, appears to be the regulatory factor between classes.

The concept of relative autonomy of the capitalist state has been put forward in the Marxian political economy writings to refer specifically to the relations between the state and the dominant classes or fractions. As proposed by Poulantzas (1980), it was firmly rooted in a structuralist approach to Marxism that the political dais is constructed on economic relations, specifically class domination and class struggle. A corollary of this statement is that the capitalist state is governed by the logic of capital accumulation, and therefore the main function of the capitalist state is to perpetuate the interests of the capitalist class and secure the reproduction of capitalist system in the long-run.

As Poulantzas (1980) states, while the capitalist state has some autonomy vis-à-vis the dominant class, this autonomy is relative since it cannot go beyond the limits posed by the reproduction needs of the system. Poulantzas' formulation of the relative autonomy of the capitalist state originates from the conflicting interests of power blocs within the capitalist class. The state remains a device for maintaining the political unity of the dominant power blocs and their hegemony over the subordinated classes. The relative autonomy of the state can go as far as allowing the state to intervene the class conflict in order to compromise occasionally with the dominated class, which in the long-run turns out to be useful for the economic interests of the dominant class.

Accordingly, state occasionally engages in *surplus creation* in order to satisfy the needs of capital, while sometimes allowing capital to practice *surplus extraction* amid the increased conflict among power blocs. Surplus creation turns the zero-sum dominion game of the conflicting power holders into a non-zero-sum-game or a game of positive gains for all the power blocs within the dominant class of the game. When the relaxed conditions that give some freedom for capital reverse with the intensifying hectic psychology of subordinate classes, state engages in to rectify the situation with restituting the relations with the subordinate classes via social policies and allowing labor to use some relative negotiation power. This means that capital will always ask for an increased share from the economic surplus while in order to relieve the increased tension of subordinate classes in times of increased appropriation and social turmoil risk, it will allow labor to experience relatively improved gains compared to the previous inferior situation.

2.5 Institutional Adjustments

External liberalization encompasses deregulation of markets, which implies redistribution of rents. In this subsection, the reader will be informed with product and labor market deregulations and their consequences. It should not be forgotten that institutional adjustments are done within power relations, thus the discussion will be carried on with the help of the previous section.

In order to discuss the distributional outcome of deregulation adjustments, in particular the product and labor market deregulation, it is convenient to overview the main ideas beforehand. Crudely to define, the underlying intention of

deregulation in product and labor markets is to augment the market dynamics such that the markets clearly respond and adjust contemporaneously to the new conditions, e.g. shocks, demand fluctuations. Thus, entry and exit barriers, level of competition in product markets, and bargaining power of workers, unionization, government regulations such as social security, unemployment benefits in labor markets can be defined as regulatory indications.

The alleged effects of simultaneous deregulation in the two markets are decreased rents in product markets and lowered bargaining power in labor markets, which in turn decrease the share of labor. Deregulation of product market encompasses easing of entry conditions into the market, which causes to decrease the rents in product market with the increased competition. Deregulation of labor market encompasses deunionization of workers, abdication of government regulations such as social security, unemployment benefits, which in turn weaken the bargaining power of labor. New entries would not be instantly responsive to de jure deregulation leading to lagged reduction of prices in product markets. Thus, in the short-run workers are worse-off while capital owners enjoy profits for a while and in the long-run profits will decline with new entries. The total impact of these processes on labor remunerations is indefinite in the long-run since it depends both on price drops and wage erosions.

On the other hand, a one-sided deregulation, typically a deregulation in labor market, apparently reduces the share of labor within the economic surplus created in product markets. Though the orthodox rhetoric proposes that high unemployment rates in many countries originate from the high regulation scheme in labor markets and thus legitimizes the deregulation in labor markets, this biased

redistribution can be explained through political course and power relations, i.e. the political dominance of capital owners, or governmental desires such as to create exportable surplus, or to generate forced savings in a Kaldorian sense may be encouraging factors, which is shaded under the terms "well-functioning" and "competitive". Extending the terms "well-functioning" and "competitive" brings flexibility of the components of production process, which indicates the adjustment phenomenon required by the cyclic nature of such an economic structure. In this circumstance, flexibility of production patterns conduces to remain an open door for the capitalist to enjoy profits or stay in market by tidying the composition of production patterns. The adaptation ability of the capitalist is not as the neoclassical theory suggests and is limited by the structure of the market and environmental factors of the economy.

Accordingly, the main tool for the capitalist for adaptation to the changing market environment is labor saving techniques, in other words labor market flexibility, which work through changing the labor share in the output either by increasing the number of employees in a period of increased gains and vice versa or changing the labor cost via adjusting the wages in a band of subsistence wage level and market prices. This poses the conflict between labor and the capitalist. However, the so-called Bowley's Law suggests that the labor share in output has inertia and does not vary much in the short and medium terms (Diwan, 1999). This can be attributed to the aforementioned institutional factors of the labor markets such as the strength of trade unions, minimum wage law, wage indexation and restrictions on labor mobility, which limit the adjustment ability of firms to changes in relative prices, factor supply, and aggregate demand conditions. Even so, if the

labor share is a constant, the living standards for the laborer change with the ongoing of the economy that has become more fluctuating, which also contradicts with the aforesaid statement (Diwan, 1999). Consequently, the terms "surplus extraction" or "surplus creation" become legitimate under the neoclassical rhetoric.

CHAPTER 3

A Retrospective Digression on the History of Macro Adjustments in the Countries Analyzed

Looking through a historical perspective elucidates the dynamics of today which helps to draw future prospects. This chapter intends to provide such a perspective for each country. But in order to understand the dynamics of individual countries, general history should be drawn beforehand.

The post-war Bretton Woods economic setting came to a point where the new regime of accumulation was forcing the mode of regulation of the era through exhaustion. Mass production of the golden age was no longer profitable since wages in the welfare states of north were increasing, demand for mass consumption goods were saturated, and the barriers on south were preventing the capital in north to access more demand. So, there had to be an adjustment of both production techniques, from Fordism to post-Fordism, and the accessibility levels to outside markets, from inward oriented economic structures to outward oriented ones. So to speak, the balance of power between domestic governments and real and financial capital seeking international mobility swung decisively toward the capital, which can be defined as "free market revolution".

In fact, liberalization process is not merely the demolition of economic barriers between countries. Liberalization can be seen as a package implanted to the developing countries. Therefore, we have to talk about the set of policies

brought by liberalization process. After early 70s, as Harvey (1989) narrates, with the introduction of liberalization,

- The size and functions of government were reduced and shifted to market dynamics.

- In this fashion, privatizations came to the agenda.

- Safety nets and social-welfare programs have been cut.

- Workers' rights have been restricted, unionization have been retarded.

- The counter-cyclical role of government expenditure in sustaining aggregate demand has been deregulated.

- Global capital was in need of market flexibility, including labor market flexibility. Due to this need, production mode has changed as was mentioned earlier, from Fordist to post-Fordist production featuring subcontracting, bid-price competition, just-in-time inventory methods and out-sourcing.

- Regressive redistribution from labor to capital has helped sustain profits just they were being eroded by increased competition and interest payments. Functional distribution between labor and capital skewed towards capital.

- State also regressed from income-transfer programs and protection for workers; also nourished both domestic and foreign capital by subsidies, adjustment of legal infrastructure, and lowering prices of row or intermediate inputs supplied by state-held industries.

Thus, the conditions for global capital to diffuse into the developing world were set. Having these commonalities in mind, I begin to narrate the economic histories of countries in the context of accumulation and distribution in the following subsections.

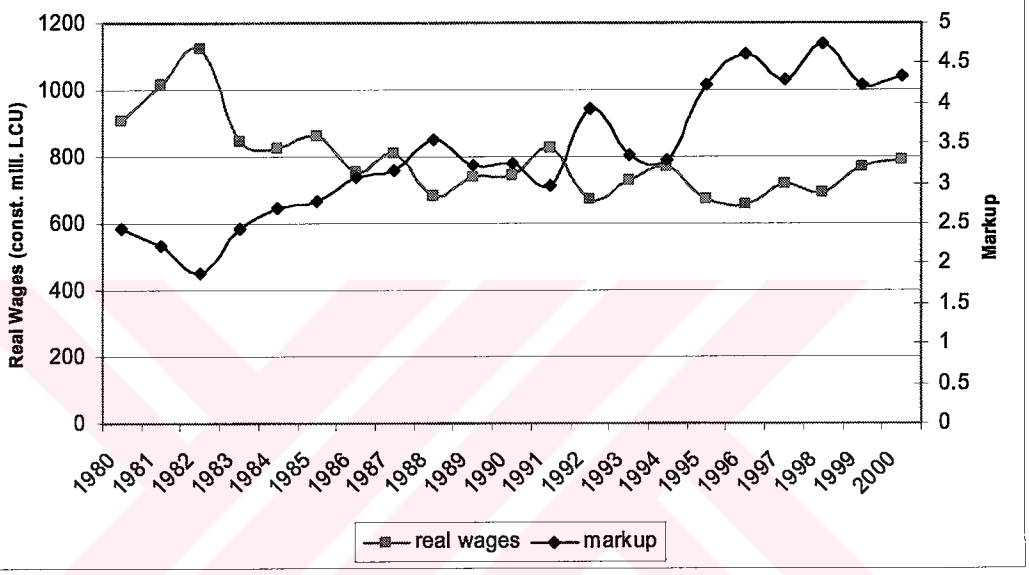
3.1 Mexico

Following policies based on import substitution that resulted in two decades of sustained growth averaging more than 6 percent per year, Mexican economy faced with the debt crisis of 1982, which had prolonged impact on the main economic and social indicators such as growth rate falling as low as to more than -4 percent as seen in Table 3.1 and inflation averaging 90 percent. The new government that came to power in 1983 was forced to adopt a tight fiscal program. The collapse of the world oil prices and the rise of the interest payments on domestic and foreign debt with high inflation, reaching implausible levels such as 60% of total expenditure as seen in Table 3.2, made the fiscal tightening policy ineffective and deepened the crisis of 1982. With the adoption of a heterodox stabilization program in 1987, domestic and external public debt started to erode gaining speed with large privatization revenues, which led to the recovery of Mexican economy. While price stability and economic stability were being maintained, Mexico went on a path of integration with the world markets. It was a common idea at that period that Mexico as a successful reformer and emerging market, was appearing as a Latin American economic miracle. This optimism rose with the approval of North American Trade Agreement (NAFTA) in 1993 and the wide-ranging economic reforms like anti-poverty program that were put into practice by Mexican government (Ros and Lustig, 1999).

In the advent of NAFTA's approval, the Mexican economy was heading towards a financial crisis and entering its worst recession since the Great Depression of 1929. In line with the crisis, political instability with the presidential

elections and opposing groups were in effect causing a chaotic environment. The devaluation of peso worsened the debt position of the economy that brought an international rescue package to the economy in 1995.

Figure 3.1 Real Wages and Markups in Mexican Manufacturing Industry



Inspection of the real wage and markup trends through Figure 3.1 gives upward movement of markups and cumulating characteristic of real wages around a constant value over time for the Mexican manufacturing industry. The determinants of such a trend can be exposed through econometric inspection, but with a bird-eye-view, it can be said that in an era of 'apertura' (or liberal transformation), markups did not deteriorate with the expected competitive environment. New capital formation seems decelerated after the crisis in 1982 with the gradual abdication of state from production activities. Thus, state seems to be a source of capital formation in the economy. With the reluctance of capital owners to append new capital to the production process due to cost and risk of expanding production

activities that may lower profits, suppressing real wages through inflationary processes, and weakening the negotiation power of labor, markups followed such a trend seen in Figure 3.1. Though unemployment rate seems to increase before and after the 1994 crisis, unemployment in Mexico, compared with other Latin American countries, does not constitute a serious problem since the rates are low due to the cheap labor supply of Mexico to North America.

Table 3.1 Selected Indicators for Mexican Economy

Years	GDP growth	Per Capita GDP Growth	Unemployment	Gross Capital formation (% of GDP)
1980	9.23	6.56	..	27.16
1981	8.77	6.22	..	27.38
1982	-0.63	-2.86	..	22.91
1983	-4.20	-6.27	..	20.75
1984	3.61	1.43	..	19.86
1985	2.59	0.48	..	21.18
1986	-3.75	-5.69	..	18.54
1987	1.86	-0.15	..	19.26
1988	1.25	-0.71	2.50	22.56
1989	4.20	2.22	..	22.94
1990	5.07	3.10	..	23.14
1991	4.22	2.30	3.00	23.33
1992	3.63	1.74	3.10	23.29
1993	1.95	0.11	3.20	21.00
1994	4.42	2.56	4.20	21.72
1995	-6.17	-7.81	5.70	19.82
1996	5.15	3.54	4.30	23.11
1997	6.77	5.24	3.40	25.86
1998	5.03	3.58	2.90	24.32
1999	3.75	2.32	2.00	23.51
2000	6.86	5.33	2.20	23.30
2001	-0.32	-1.74	2.10	20.89
2002	0.90	-0.54	2.40	20.26

Source: World Development Indicators, World Bank

Table 3.2 displays the pre-90 inflationary period of creating exportable surplus via gaining the competitive advantage of devaluation and eroding wages. After 1990, the attempt to join NAFTA required some stability criteria, and for this purpose, an anti-inflationary attempt with debt reduction aiming was launched,

which caused economic stagnation. Such an attempt was ended with the cliché end of such attempts: crisis. Immediate IMF credit was the remedy for 1994 crisis. Real interest rates rose with the credit need of government. Thus, the economy went into post-crisis stagnation.

Table 3.2 Selected Financial Data for Mexican Economy

Years	Inflation CPI	Real Int. Rate	IMF Credit (current billion USD)	Interest Paym. (% of Tot. Exp.)
1980	100.76	..	0.00	10.65
1981	104.48	..	0.00	15.58
1982	164.78	..	0.22	15.84
1983	343.81	..	1.26	37.53
1984	626.72	..	2.36	35.55
1985	672.18	..	2.97	39.23
1986	90.10	..	4.06	52.98
1987	131.33	..	5.16	60.84
1988	342.96	..	4.80	59.54
1989	3079.81	..	5.09	51.43
1990	2313.96	..	6.55	45.02
1991	171.67	..	6.77	30.59
1992	24.90	..	5.95	23.35
1993	10.61	..	4.79	16.50
1994	4.18	7.01	3.86	13.41
1995	3.38	14.23	15.83	18.12
1996	0.16	10.57	13.28	18.64
1997	0.53	9.75	9.09	13.70
1998	0.92	12.55	8.38	14.70
1999	-1.17	13.20	4.47	16.27
2000	-0.94	9.85	0.00	..
2001	-1.07	..	0.00	..
2002	..	..	0.00	..
2003	..	..	0.00	..

Source: World Development Indicators, World Bank

3.2 Colombia

After a period of tight import-substitutionist economic stance, Colombia shifted relatively towards an outward looking stance in 1967. Average annual growth rate of GDP was 6.6 percent in 1970-75 and 5.4 percent in 1975-80 and the volume of exports expanded at a rate of 6.1 percent a year with imports having 8.4

percent of growth per year (Garcia and Garcia, 1991). The shift in trade policy reached its climax in 1980 and a rearrangement of trade policy that reversed the previous openness aiming was made in 1981 with the inclining appreciation of the local currency, which severely hurt the growth of exports. This was a turning point for Colombian economy since a new period of inward economic policies came out with gradual construction of trade barriers. Outward orientation years of the Colombian economy before 1980 pushed the economy into a balance-of-payments crisis while providing high growth rates. In contrast, the protectionist period after 1980 witnessed considerably slower growth rates, yet with a more stabilized macroeconomic environment (Roberts and Tybout, 1996). By the time this reversal began to be implemented, the real wages settled on a relatively stable plateau as seen in Figure 3.2.

1990s brought a new wave of liberalization with a rapid process of structural reforms to Colombia. An addition to standard structural reform packages for the countries in the region was the attempt to increase social sector spending to eradicate the sizable inequality accumulated in the country. This combination of active social policy and liberalization has raised difficulties as rising fiscal strains and besides this, it brought more instability than before, decelerated the growth rate and weakened the tradable sectors. Thus, there occurred a need for rearrangement of power between state and capital owners. Real wage trend got a downward kink while profit rate trend put an end to its downward trend of the four years of 90s as is seen in Figure 3.2. These troublesome features of the economy with international shocks and uncertain environment resulted in the strongest recession of the past 30 years in 1998-99.

Coming to the evolution of markups and real wages, Figure 3.2 discloses a negative correlation between the two variables. While wages seem to have an upward trend over the post-1980 era, Table 3.3 portrays the drastic increasing trend of unemployment rates over time, which reflects the deliberate cost-reduction attempt of the employers through labor-saving techniques against the rising real wages.

Figure 3.2 Real Wages and Markups in Colombian Manufacturing Industry

Growing cost reduction desire of employers in order to compete internationally with rising basic social security contributions that has been implemented by the state, and with rising internal and international economic turmoil conduced to implausible levels of unemployment. Unemployment grew so fast that in year 2000 it reached around 20 percent. In line with the decrease in employment, capital formation decreased as well. These naturally meant a total contraction in production.

Table 3.3 Selected Indicators for Colombian Economy

Years	GDP growth	Per Capita GDP Growth	Unemployment	Gross Capital formation (% of GDP)
1980	4.10	1.81	9.10	19.06
1981	2.26	-0.01	8.10	20.63
1982	0.95	-1.22	9.10	20.50
1983	1.58	-0.55	11.10	19.91
1984	3.36	1.22	13.10	18.95
1985	3.09	0.98	14.00	19.03
1986	5.84	3.70	13.00	18.00
1987	5.37	3.29	11.10	19.06
1988	4.06	2.02	10.10	20.65
1989	3.42	1.40	8.90	18.49
1990	4.01	1.99	10.20	18.50
1991	2.40	0.41	9.80	15.95
1992	3.89	1.89	9.20	16.71
1993	5.39	3.36	7.80	21.28
1994	5.84	3.79	7.60	25.54
1995	5.20	3.15	8.70	25.80
1996	2.06	0.17	12.00	22.15
1997	3.43	1.47	12.10	20.92
1998	0.56	-1.32	15.00	19.61
1999	-4.05	-5.75	20.10	12.54
2000	2.81	0.97	20.50	12.22
2001	1.39	-0.34	14.70	15.14
2002	2.10	0.88	17.90	23.07
2003	3.74	2.00	..	15.89

Source: World Development Indicators, World Bank

Post-1980 era was characterized by inertial inflation for Colombian economy as seen in Table 3.4. High interest rates were forming disincentive in production, thus leading to stagnation. High interest rates were the outcome of financial repression formed by the outside banks that give credit according to the credit rationing signals of some independent organizations. On the other hand, the Betancur government was reluctant to make a formal agreement with IMF, which contrarily was demanded by creditor banks. The burden of high real interest rates was that the share of interest payments in total expenditure has risen throughout the decade.

Table 3.4 Selected Financial Data for Colombian Economy

Years	Inflation CPI	Real Interest Rate	IMF Credit (current billion USD)	Interest Payments (% of Tot. Exp.)
1980	26.54	..	0.00	4.21
1981	27.48	..	0.00	4.65
1982	24.55	..	0.00	5.38
1983	19.76	..	0.00	4.99
1984	16.14	..	0.00	4.09
1985	24.04	..	0.00	5.57
1986	18.88	9.04	0.00	7.32
1987	23.30	14.37	0.00	10.44
1988	28.11	11.69	0.00	10.62
1989	25.84	14.72	0.00	9.99
1990	29.14	12.98	0.00	9.83
1991	30.39	16.73	0.00	10.76
1992	27.03	11.09	0.00	8.46
1993	22.61	9.27	0.00	10.67
1994	23.84	-3.37	0.00	9.18
1995	20.96	20.08	0.00	9.18
1996	20.24	21.50	0.00	12.23
1997	18.86	14.88	0.00	12.69
1998	20.35	23.50	0.00	17.41
1999	11.21	14.12	0.00	17.61
2000	9.49	7.27	0.00	..
2001	7.97	..	0.00	..
2002	6.35	..	0.00	..
2003	7.13	..	..	..

Source: World Development Indicators, World Bank

High real interest rates led some liberalization of foreign borrowing and expansionary monetary policy in mid-90s as seen in Table 3.4. Interest rates began to fall, but the reduction was not rapid enough that interest rates suspended on a plateau, thus capital inflows did not decelerate leading to revaluation, and economic slowdown. In order to rectify the situation, policies aiming exchange rate depreciation, and fiscal restrains with further reduction in interest rates were undertaken. However the situation got worse with speculative attacks and Colombian government went on an IMF agreement in 1999 for the first time after around 40 years.

3.3 Chile

As was the worldwide convention during the 1960s, Chile pursued an inward-oriented development strategy. 1970 elections resulted in the triumph of socialist Allende government and this intensified inward-oriented development policies. The new government began to confiscate private production units, appropriated large farms under Agrarian Land Reform, increased public sector wages, shifted the exchange rate regime to fixed exchange rate and put a generalized system of price controls (Agenor and Montiel, 1999). These policies led to large increases in government spending and money base since public spending was also financed with central bank credits. Chilean economy was under a massive radical change and the social and economic indicators were drifting apart: Real GDP grew by 9 percent, unemployment fell below 4 percent and real wage grew by 17 percent in 1971 with increasing public debt and inflation. The year 1973 was a turning point for Chilean economy; the military coup brought the junta regime of Pinochet, which caused the economy to make a u-turn. This meant a structural adjustment process comprising fast transformation of the economy into neoliberal framework. Privatization of the previously confiscated economic units, opening the economy to world markets, fiscal austerity and price stabilization were included in the adjustment program. The average tariff rate declined from 105 percent in 1974 to about 12 percent in 1979 (Roberts and Tybout, 1996).

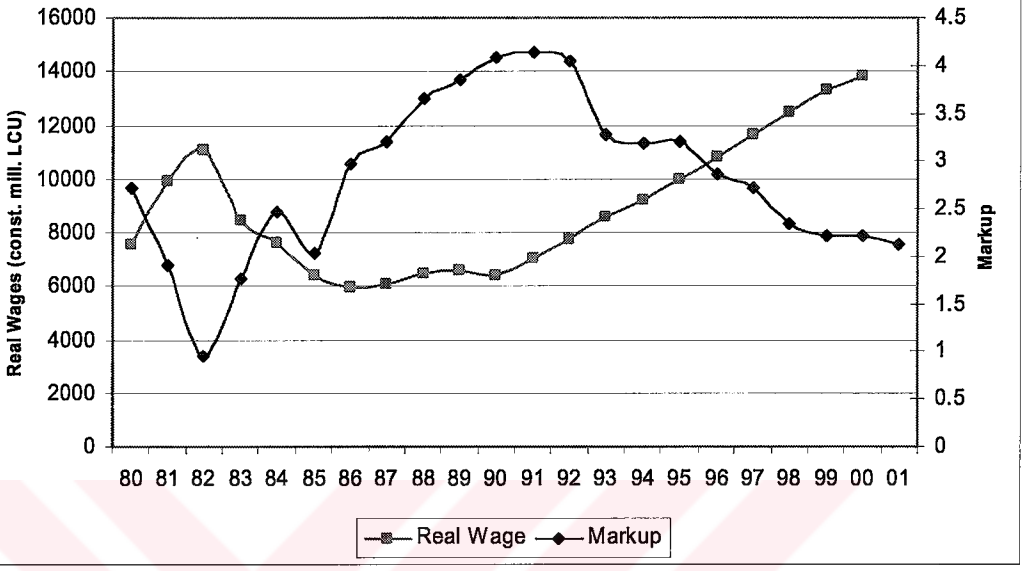
After an initial period of recessionary shock, industry began to recover in 1976 with the labor-saving features of the recovery policies and the employment losses remained permanent during the stabilization period of 1976-81. Balance of

trade in industrial products worsened considerably in response to trade liberalization and appreciation of the national currency. Emergence of powerful conglomerates was another feature for the period, which changed the economy towards a more concentrated market structure (Roberts and Tybout, 1996).

For the period considered, exchange rate appreciation was a serious problem, which finally became a trouble for the economy in 1982. Current account deficit, profit squeeze of the firms and contraction of large external capital inflows forced the government to devalue the national currency. A major recession followed devaluation and unemployment reached roughly 30 percent in 1983. Labor's share in this period eroded enormously. But still a requirement of *surplus creation* was apparent and government took control of major private banks, initiated a recapitalization program, consolidated the industrial loans, re-programmed the long-term debts, and lowered corporate income taxes. Industry was in need of protection as well and trade barriers were reconstructed in this period. After the industry gave sound signals, these measures were recessed gradually.

Sustained growth has been maintained in the last decade as seen in Table 3.5 but this did not retrieve the labor market conditions at the end of the period due to the accumulated malfunction of the economy, which hides itself throughout the decade resulting in a crisis. It seems that increased real wages with the state intervention to heal the problem of inequality spread through the society has triggered employers to restore the increased total wage costs to the levels that they desire to achieve via labor shedding.

Figure 3.3 Real Wages and Markups in Chilean Manufacturing Industry



Although the economy was open to a social turmoil, state-oriented redistribution policies towards eliminating poverty and income gap raised real wages and this resulted in a drop in the total number of people living in poverty, from 47% in 1987 to slightly more than 20% at the present time, as a result of widening of the job market during the 1990s and an increased overall income. Figure 3.3 represents real wage trend, which stands besides the counter-movement of markup rates.

Table 3.5 Selected Indicators for Chilean Economy

Years	GDP growth	Per Capita GDP Growth	Unemployment	Gross Capital formation (% of GDP)
1980	8.15	6.54	10.40	21.02
1981	4.74	3.16	11.30	22.70
1982	-10.32	-11.68	19.60	11.28
1983	-3.79	-5.27	14.60	9.85
1984	7.97	6.29	13.90	13.68
1985	7.12	5.42	12.10	17.19
1986	5.60	3.90	8.80	18.88
1987	6.59	4.85	7.90	22.24
1988	7.31	5.53	6.30	22.77
1989	10.56	8.70	5.30	25.15
1990	3.70	1.92	5.70	25.11
1991	7.97	6.18	5.30	22.55
1992	12.28	10.41	4.40	23.81
1993	6.99	5.23	4.50	26.50
1994	5.71	4.02	5.90	24.10
1995	10.63	8.95	4.70	25.79
1996	7.26	5.71	5.40	26.88
1997	7.54	6.05	5.30	27.23
1998	3.92	2.53	7.20	26.64
1999	-1.14	-2.43	9.90	21.42
2000	5.38	4.04	8.30	23.44
2001	2.80	1.53	7.90	20.69
2002	2.10	0.88	7.80	23.07
2003	3.30	2.02	..	22.12

Source: World Development Indicators, World Bank

90s brought liberal measures and this increased vulnerability of the economy. Current account deficit rising to implausible levels and short-term capital inflows recessing in the crisis periods with disloyalty were the determinants of vulnerability. In 1998, current account deficit reached a sum of 4.144 million dollars, which represents 6.3% of production. This situation reached its deepest depths toward the end of the decade. It simply did not manifest itself earlier due to the unusual influx of capital, mainly in the form of foreign direct investment, which led to an increased balance in the capital account.

Table 3.6 Selected Financial Data for Chilean Economy

Years	Inflation CPI	Real Interest Rate	IMF Credit (current billion USD)	Interest Payment (% of Tot. Exp.)
1980	35.14	14.27	0.12	2.84
1981	19.69	34.48	0.05	1.38
1982	9.94	50.98	0.01	1.56
1983	27.27	9.31	0.61	3.91
1984	19.86	22.84	0.78	4.27
1985	29.46	7.08	1.09	6.31
1986	20.61	3.49	1.33	5.68
1987	19.89	6.49	1.46	8.27
1988	14.68	-0.20	1.32	10.09
1989	17.03	21.01	1.27	8.24
1990	26.03	22.79	1.16	9.52
1991	21.78	6.07	0.96	10.29
1992	15.43	10.91	0.72	6.84
1993	12.73	12.39	0.48	5.95
1994	11.44	6.87	0.29	4.71
1995	8.24	8.08	0.00	3.74
1996	7.36	15.23	0.00	2.77
1997	6.14	11.40	0.00	2.10
1998	5.11	17.46	0.00	3.08
1999	3.34	8.46	0.00	1.47
2000	3.84	10.38	0.00	2.04
2001	3.57	..	0.00	2.08
2002	2.49	..	0.00	..
2003	2.81	..	..	..

Source: World Development Indicators, World Bank

3.4 Argentina

The structural adjustments towards a more autarkic national economic structure were handled by the military-oriented hybrid regimes after the military coup in 1930. The nationalist and populist Peron regime also followed this mode of regulation after the Second World War. As the implementation of measures of inward-looking development strategy responded, manufacturing growth gained impetus. Following the Peronist regime, non-civilian governments were on power until the emergence of the restoration of Peronist regime in 1973.

The junta regime coming to power after the Peronist government handled structural adjustment policies of openness aiming. The content of the adjustment package was in line with the world trend of economic change. The junta regime quickly passed the laws for trade liberalization. Before 1980, inflation rate was already passed out the level of 100 percent annually. The junta regime's response was to open the economy so as to force prices down through international competition. Tariffs were lowered and the local currency peso became overvalued. This produced an enormous growth of imports.

Although the new civilian government went on an anti-inflationary program with price controls and social policies such as monthly adjustment of real wages, inflation mounted to implausible levels. The interesting part of the story was that various sectors of bourgeois class were approving of the situation. Speculative earnings were a matter of passivity to the situation. The economic situation would have allowed at that time the introduction of deflationary policies, and that presumably would have had a broad level of support and good possibilities of success; instead there was a blind adherence to the liberal orthodoxy that led to further exacerbation of the situation. Table 3.7 summarizes the lost decades of Argentine economy via financial data. IMF dependency and high levels of inflation are clearly seen.

Table 3.7 Selected Financial Data for Argentine Economy

Years	Inflation CPI	Real Interest Rate	IMF Credit (current billion USD)	Interest Payment (% of Tot. Exp.)
1980	100.76	..	0.00	0.00
1981	104.48	..	0.00	16.67
1982	164.78	..	0.00	23.33
1983	343.81	..	1.17	11.41
1984	626.72	..	1.10	13.56
1985	672.18	..	2.31	11.48
1986	90.10	..	2.74	7.79
1987	131.33	..	3.85	8.06
1988	342.96	..	3.68	7.44
1989	3079.81	..	3.10	7.40
1990	2313.96	..	3.08	8.46
1991	171.67	..	2.48	10.85
1992	24.90	..	2.31	9.61
1993	10.61	..	3.52	7.42
1994	4.18	7.01	4.21	8.15
1995	3.38	14.23	6.13	10.05
1996	0.16	10.57	6.29	11.05
1997	0.53	9.75	5.87	12.82
1998	0.92	12.55	5.44	14.46
1999	-1.17	13.20	4.48	17.06
2000	-0.94	9.85	5.06	19.94
2001	-1.07	..	13.98	22.10
2002	25.87	..	14.34	..
2003	13.44	..	..	..

Source: World Development Indicators, World Bank

In 1989, Argentina was on the edge of an economic crisis. High inflation rates led to erosion of wages and increased internal debt. The high degree of protection and large amount of government subsidies the local producers enjoyed formed the general idea of economic inefficiency, which resulted in implementation of further liberalization policies in 1991. The most important item in this package was the convertibility law that declared the fixing of national currency to dollar indicating the equivalence of one dollar and one peso. It did not outlaw the modification of exchange rate but clearly stated the backing of peso in the central bank reserves as dollars, and this caused compulsory storing of reserves backing 100 percent of the money supply in the market. By doing this the government hoped

to convince the financial world of its commitment to economic reform and stability. The Law of State Reform opened the door of privatization for state-owned enterprises. Convenient with these measures, government reduced trade barriers further. Consequently, Argentine economy became trustworthy once again for the creditors and a take-off period of three years originating from flowing external credits started: GNP grew steadily, interest rates became more reasonable, consumption increased and inflation fell drastically.

Unemployment grew to inadmissible levels as the result of privatizations and overvalued peso; fixing to dollar caused the exporting sectors of the industry to engage in surplus extraction. Government also attempted to retrieve the situation via surplus creation: Exporting sectors of the economy were subsidized instead of devaluation for gaining competitive power; in fact it would not be a rational action since credibility had to be sustained.

Three years of growth ended with the recession in 1995, which produced a 6.8 percent contraction and a new trend of growth began by 1996. Before coming to year 2000, which encompassed the major crisis that Argentine economy faced ever, the economy followed an unstable path.

As a contrast, Argentine manufacturing industry markups do not behave as the other Latin American countries over time. As usual, average real wages in manufacturing sector seen on Figure 3.4 erode in the past 20 years. The pattern reveals that the episode of open economy severely hurt both capital and labor shares. Besides the trend in growth rates, labor market conditions deteriorated as shown in Table 3.8. Crisis years within adjustment periods worsened labor market conditions. These events increased social conflict in recent years leading to strikes, protests, and political turmoil. Disinflation programs pushed the economy into severe recession. As is seen in Table 3.8, growth rates fell below zero for the last four years.

Table 3.8 Selected Indicators for Argentine Economy

Years	GDP growth	Per Capita GDP Growth	Unemployment	Gross Capital formation (% of GDP)
1980	4.15	2.60	2.30	25.26
1981	-5.69	-7.11	4.50	22.69
1982	-4.96	-6.39	4.80	21.75
1983	3.88	2.31	4.20	20.89
1984	2.21	0.67	3.80	19.96
1985	-7.59	-8.97	5.30	17.59
1986	7.88	6.28	4.40	17.46
1987	2.91	1.41	5.30	19.55
1988	-2.56	-3.94	6.00	18.64
1989	-7.50	-8.76	7.30	15.51
1990	-2.40	-3.68	7.30	14.00
1991	12.67	11.19	5.80	14.64
1992	11.94	10.46	6.70	16.70
1993	5.91	4.51	10.10	19.06
1994	5.84	4.43	12.10	19.94
1995	-2.85	-4.14	18.80	17.94
1996	5.53	4.17	17.20	18.08
1997	8.11	6.74	14.90	19.37
1998	3.85	2.55	12.80	19.93
1999	-3.40	-4.60	14.10	17.87
2000	-0.52	-1.74	15.00	15.93
2001	-4.41	-5.24	18.30	14.17
2002	-1.09	-1.16	17.80	11.96
2003	8.72	3.35	..	15.13

Source: World Development Indicators, World Bank

3.5 Venezuela

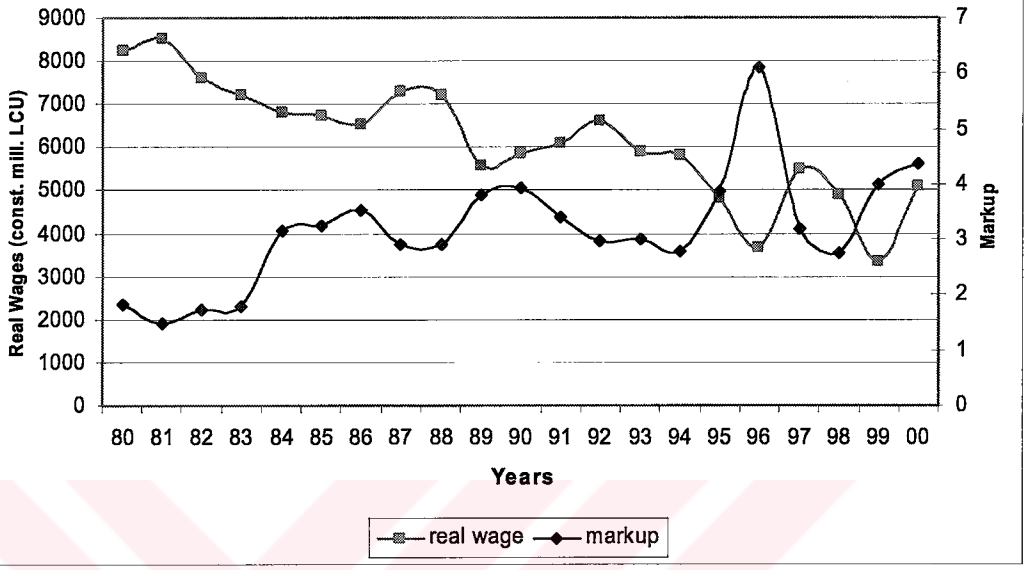
As an oil-producing country, Venezuela went into a new phase of accumulation process with the rise in oil prices in 1973. The extra surplus created with the high oil prices was channeled to state-oriented development program, which aimed to form indigenous industries for import-substitution aiming. With the nationalization of oil and iron industries, the financing of state-based development program expanded. Although the welfare state was promoting industrialization to form indigenous bourgeoisie, the attempt to lower wage goods helped to improve labor's living standards. Employment was low due to artificial tightness of labor

markets and the share of labor in GDP was higher than capital (Anglade and Fortin, 1990).

With the fall of income generated by oil sales after 1980, Venezuelan economy went into trouble. As a result of this, the boom period of 73-79 followed by a stagnation period that led the cease of state capitalism and gave way to free market transformation. After four years of the deregulation and openness period, it was understood that these policies proved to be problematic. The supposed increase in capacity utilization and realistic prices for capital goods and labor wages were realized. GDP fell by 5.6 percent and investment down by 26.3 percent by 1983 (Anglade and Fortin, 1990). Both markups and real wages tended to fall and unemployment rate reached up to 18 percent in this period.

The period was followed by an orthodox IMF stabilization program, which resulted in contraction. GDP and capital formation fell further, unemployment reached its highest level of the last 25 years while profitability began to follow an upward trend as seen in Figure 3.5 with only two years of decrease till 1990.

Figure 3.5 Real Wages and Markups in Venezuelan Manufacturing Industry



During 1991-95, Venezuelan economy was subject to declining oil prices, political instability (1992-93), and a major banking crisis (1994-95). By early 1996 the economic situation was characterized by accelerating inflation, declining non-oil GDP and foreign reserve problems (1998, Almeida et al.). Government signed a stand-by agreement with IMF in 1996 which was proposing the usual set of policies such as fiscal strains, financial confidence, improved resource allocation etcetera. These policies were regressive for labor gains as seen in Figure 3.5. Policies aiming deregulation like privatization, deregulation of social security system, decreasing severance payments and social safety nets etc. meant further losses for working population. As seen in Table-9, unemployment rates increased in the last 10 years due to the mentioned policies.

Table 3.9 Selected Indicators for Venezuelan Economy

Years	GDP growth	Per Capita GDP Growth	Unemployment	Gross Capital formation (% of GDP)
1980	-4.42	-7.28	5.90	26.39
1981	-0.36	-3.14	6.30	24.43
1982	-2.07	-4.63	7.10	27.69
1983	-3.76	-6.15	10.10	12.21
1984	1.42	-0.98	13.00	17.50
1985	0.21	-2.10	13.10	18.51
1986	6.53	4.08	11.00	20.94
1987	3.55	1.10	9.20	24.57
1988	5.84	3.21	7.30	27.95
1989	-8.59	-11.03	9.90	12.71
1990	6.48	3.36	10.40	10.22
1991	9.74	7.16	9.50	18.70
1992	6.06	3.62	7.70	23.72
1993	0.25	-2.00	6.70	18.76
1994	-2.35	-4.48	8.70	14.15
1995	3.97	1.75	10.30	18.11
1996	-0.20	-2.29	11.80	16.55
1997	6.37	4.19	11.40	21.04
1998	0.17	-1.83	11.20	21.87
1999	-6.09	-7.93	14.90	18.10
2000	3.21	1.24	13.20	17.54
2001	2.79	0.86	12.80	19.72
2002	-8.88	-10.56	..	17.10
2003	-9.22	-10.85	..	11.56

Source: World Development Indicators, World Bank

Relations with IMF brought slowdown in growth, increase in the share of interest payments in total expenditure, and interestingly high positive real interest rates in the first half of 90s and negative interest rates in the second half of the decade. This abrupt economic tableau also brought lower rates of growth and increased unemployment. Though Venezuela is one of the main petrol-producing economies, share of interest payments in total expenditure, as seen in Table 3.10, rose while growth rates started to crawl.

Table 3.10 Selected Financial Data for Venezuelan Economy

Years	Inflation CPI	Real Interest Rate	IMF Credit (current billion USD)	Interest Payment (% of Tot. Exp.)
1980	21.54	..	0.00	7.77
1981	16.05	..	0.00	6.88
1982	9.66	..	0.00	7.53
1983	6.34	..	0.00	8.31
1984	11.57	-7.66	0.00	12.12
1985	11.38	-0.98	0.00	11.12
1986	11.54	9.81	0.00	10.85
1987	28.14	-21.12	0.00	17.82
1988	29.47	-8.42	0.00	12.08
1989	84.46	-35.26	1.00	20.79
1990	40.66	-4.36	3.01	15.71
1991	34.21	12.96	3.25	16.32
1992	31.42	10.17	2.95	16.29
1993	38.12	21.45	2.68	19.13
1994	60.82	-5.03	2.64	23.59
1995	59.92	-7.93	2.24	25.61
1996	99.88	-35.31	2.20	22.16
1997	50.04	-10.65	1.62	11.62
1998	35.78	21.07	1.23	11.50
1999	23.57	4.07	0.74	13.57
2000	16.21	-1.29	0.20	11.50
2001	12.54	..	0	11.28
2002	22.43	..	0	..
2003	31.09	..	..	..

Source: World Development Indicators, World Bank

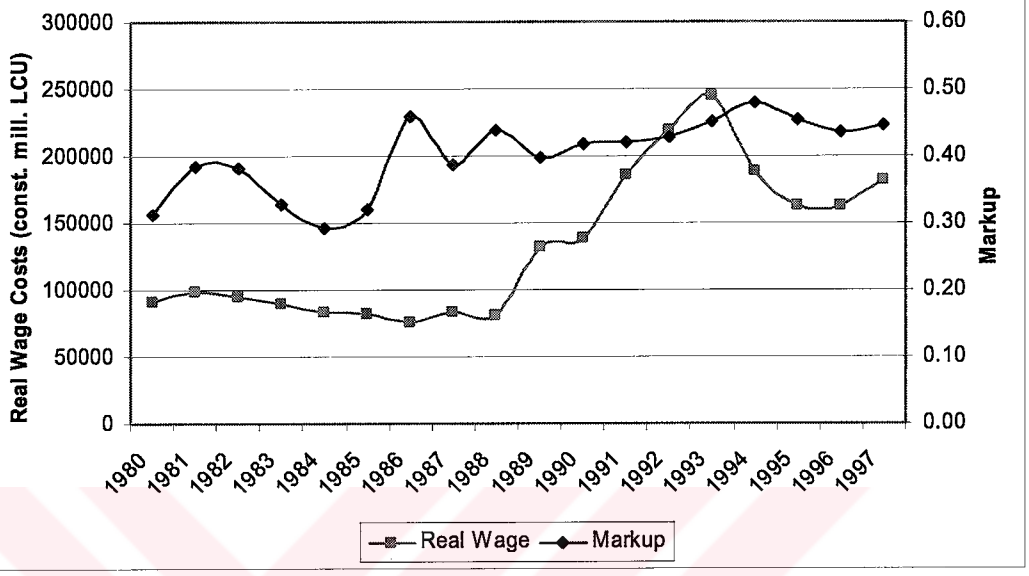
3.6 Turkey

After the first military coup in 1960, the Turkish economy followed a planned, import-substitutionist, policy-based structure. With the formation of the State Planning Organization, five-year economic plans were implemented resulting in fairly good growth rates, which continued until the beginning of the 80s. At the beginning of this planned-economy period, the Turkish economy had already had interactions with the IMF (the 1958 foreign debt consolidation, for instance) and relations with the IMF became more and more intense as time passed and debt grew.

The economic crisis of 1973, political instability of the 70s, the 1971 semi-military coup changed the ongoing structure of the economy. The second military coup in 1980 was a benchmark for the Turkish social and economic life –indeed, the end of 70s was a benchmark for most of the countries throughout the world-. The 24th of January decisions, which were prepared for a summit between the IMF and the government in 1979, declared a new perspective –a liberal perspective- for the Turkish economy. The decisions brought reforms for openness aiming first at commodity trade liberalization in 1980 and finishing with financial liberalization in 1989. In this period, the Turkish economy faced chronic inflation that rose each year. Real wages also started to decline after 1980.

The main economic policy characteristic of the 1983-87 period was the suppression of wages in order to leave high mark-up rates for the capitalist elite who were expected to be more competitive in global markets. Reducing the domestic demand through wage extraction and creating exportable surplus were the dual effects of such a policy. The share of wage-labor in private manufacturing value added receded from 27.5% to 17.1%; and in public manufacturing from 25% to 13%. In this process, the average mark-up rate in private manufacturing increased from 31% to 38% as seen in Figure 3.6.

Figure 3.6 Real Wage Costs and Markups in Turkish Manufacturing Industry



Source: SIS Manufacturing Data.

During this period, exports rose by 19.7% per annum in dollar terms and the real gross domestic product, following the low-point of the 1978-80 depression, rose by 5.4% per annum. However, the performance of fixed investments did not follow this pattern. In the private sector, gross fixed investments initially contracted by 5.3% in 1981-82, and increased by 12.3% during 1983-87. Decomposition of this path reveals that only a small portion of this amount was directed to manufacturing. The rate of growth of private manufacturing investments has been on the order of only 2.1% per annum. This resulted in a significant anomaly as far as the official stance towards industrialization was concerned: in a period where outward orientation was supposedly directed to increase manufacturing exports through significant price incentives and subsidies, the share of manufacturing investments declined substantially.

The economic figures that appeared in 1988 were signals of exhaustion of such a set of policies and the need for a renewal in the set of policies became apparent. Diagnoses inferred through all economic indicators of 1988 were reflecting a stagflationary macro environment. As seen in Table 3.11 and 3.12, the rate of growth of GDP was only 2.1%, and the inflation rate accelerated to 75%. Real wage earnings hit their lowest point, but then recovered quickly beginning in 1989, the starting point of the new populist phase. With the upcoming elections and rising labor movements in 1989, state felt to engage in rectifying the situation with restituting the relations with the labor via social policies and allowing labor to use some relative negotiation power. Real wages in manufacturing increased by 90% from 1988 to 1991. Thus, the classical accumulation episode based on wage suppression had come to a halt by 1989.

Table 3.11 Selected Indicators for Turkish Economy

Years	GDP Growth	Per Capita Growth	Unemployment	Gross Capital formation (% of GDP)
1980	-2.45	-4.60	..	18.16
1981	4.86	2.41	..	17.87
1982	3.56	1.02	10.90	16.95
1983	4.97	2.39	12.10	16.29
1984	6.71	4.09	11.90	16.18
1985	4.24	1.74	11.20	16.51
1986	7.01	4.61	..	18.85
1987	9.49	7.13	..	25.67
1988	2.12	-0.07	8.40	25.14
1989	0.25	-1.90	8.60	23.47
1990	9.26	6.82	8.00	24.35
1991	0.93	-1.03	8.00	22.72
1992	5.98	3.97	8.30	23.86
1993	8.04	6.01	8.70	27.61
1994	-5.46	-7.20	8.40	21.48
1995	7.19	5.24	7.50	25.47
1996	7.01	5.07	6.50	24.55
1997	7.53	5.61	6.70	25.11
1998	3.09	1.28	6.80	24.18
1999	-4.71	-6.34	7.70	23.35
2000	7.36	5.56	6.60	24.51
2001	-7.49	-8.99	8.50	16.78
2002	7.94	6.24	10.60	21.32
2003	5.79	4.17	..	23.01

Source: World Development Indicators, World Bank

For a brief overview, it can be said that 90s brought crises, which made the Turkish economy fragile. The first crisis was in 1994, and with the contagion of 1998 world financial crisis, the situation became more serious leading the economy to have closer relations with IMF. For some years, the growth rates dropped under zero and severe recessions were observed. There were several attempts –IMF programs- to decrease the inflation rate, which were unsuccessful. February 2001 brought a new crisis, resulting in a deep recession and political instability; after this crisis the economy began to recover again, which is a normal process for a post-

crisis period because of the devalued currency, decreased government spending, rearranged debt payments, and reduced wages.

Table 3.12 Selected Financial Data for Turkish Economy

Years	Inflation CPI	Real Int. Rate	IMF Credit (current billion USD)	Interest Paym. (% of Tot. Exp.)
1980	11.02	-55.10	1.05	2.507837
1981	36.58	-9.06	1.32	5.064203
1982	30.84	21.77	1	..
1983	31.4	18.74	1.57	6.500394
1984	48.38	-3.24	1.43	8.267179
1985	44.96	1.95	1.33	8.656304
1986	34.62	11.99	1.09	13.07362
1987	38.85	24.39	0.77	14.97322
1988	73.67	14.55	0.30	15.72278
1989	63.27	-16.67	0.05	15.90829
1990	60.31	1.16	0.00	18.27746
1991	65.97	13.84	0.00	14.05186
1992	70.07	10.48	0.00	11.98903
1993	66.1	7.03	0.00	14.08344
1994	106.26	-10.89	0.34	19.67271
1995	88.11	5.12	0.68	12.244
1996	80.35	15.93	0.66	12.50359
1997	85.73	15.06	0.59	26.45113
1998	84.64	19.12	0.39	36.848
1999	64.87	-8.86	0.89	36.38218
2000	54.92	-4.30	4.18	41.79553
2001	54.4	7.69	14.12	49.98666
2002	44.96	4.06	22.09	..
2003	21.29	7.30	..	..

Source: World Development Indicators, World Bank

CHAPTER 4

Econometric Modeling

In the theoretical chapter, I have presented models that illustrated the pressures for and consequences of external liberalization. In that chapter, the intent of the neoclassical theory stressing on external liberalization was mentioned as forming competitive pressure and thus attaining the "natural" distributive rule: marginal payments of factors. A corollary of this statement is that competition would erode profits. As was mentioned in the theoretical chapter, rather than the neoclassical contemplation that the distributional patterns are passive outcomes of the free interplay of market forces, I regard profit as a politically and socially determined entity that is created, extracted, and distributed by the authoritative/ administrative actions under specific structural parameters. Consequently, contrary to the neoclassical theory I expect profits to resist against pressures of competition brought by external liberalization, which was affirmed by other models illustrated in the theoretical chapter. Thus, it is convenient to test this hypothesis, which will be the aim of this chapter. I will probe the resistance of markup rates -as proxy to profit rates- to some of the variables that were listed previously for the manufacturing sectors of selected Latin American countries and Turkey as a contrast. Time series and panel data econometrics are used in order to delineate the sensitivity of markup rates on such a set of variables since the rudimentary data

available do not allow for an expanded subsectoral panel data analysis. It would be much explanatory if a subsectoral panel data analysis for each individual country's manufacturing industry could be made. Such kind of an analysis could give information on the concentration of manufacturing sectors, and sectoral evolutions for each country in the post-1980 era. As a prospect, future research would delineate such questions provided that reasonable data is available.

The main source for the data is *World Development Indicators*, which is a large data set for a large number of countries. In addition to this data set, manufacturing real wage and markup rate series originate from Milanovic. Specific for Turkey, the SIS *Manufacturing Industry Annual Series* data set is utilized. Regressions cover 22 years of annual data due to availability, and outliers reduce this number.

For the ordinary least squares estimation, the specification for the sought relation is assumed to be linear and as follows:

$$MR_t = \alpha_t + \beta_1 O_t + \beta_2 U_t + \beta_3 log(RW_t) + \varepsilon_t$$

And for the pooled regression, the system of estimation equations is as follows:

$$MR\_ARG_t = \alpha_t + \beta_1(O\_ARG_t) + \beta_2 LOG(RW\_ARG_t) + \beta_3(U\_ARG_t)$$

$$MR\_CHL_t = \alpha_t + \beta_1(O\_CHL_t) + \beta_2 LOG(RW\_CHL_t) + \beta_3(U\_CHL_t)$$

$$MR\_COL_t = \alpha_t + \beta_1(O\_COL_t) + \beta_2 LOG(RW\_COL_t) + \beta_3(U\_COL_t)$$

$$MR\_MEX_t = \alpha_t + \beta_1(O\_MEX_t) + \beta_2 LOG(RW\_MEX_t) + \beta_3(U\_MEX_t)$$

$$MR\_VEN_t = \alpha_t + \beta_1(O\_VEN_t) + \beta_2 LOG(RW\_VEN_t) + \beta_3(U\_VEN_t)$$

$$MR\_TUR_t = \alpha_t + \beta_1(O\_TUR_t) + \beta_2 LOG(RW\_TUR_t) + \beta_3(U\_TUR_t)$$

Other panel regressions using generalized least squares and seemingly unrelated regressions are employed as well, but for space concerns the system of equations of these regressions will be demonstrated in Appendix-C.

The dependent variable, *MR*, indicates markup rate for the manufacturing sector of the respective country. To portray the capital and labor shares, markup rate is used as an instrument since it provides a good proxy on the profitability of capital, and for a better understanding of how the shares of labor and capital vary it is to be exposed. Assuming markup pricing is used as the pricing mechanism, the pricing rule for the capitalist will be a parameter multiplied by the total cost per output including labor cost per output. The "gross profit margin" or "markup rate" can be found if the parameter is refined from the total cost by subtracting 1. It is convenient to define profit as the value of the gain from output over the value of capital used in the production process. Arrangement of the two definitions results in the revelation of direct relation between profit rates and markup rates and capacity utilization, defined as the output-capital ratio in most of the structuralist writings (see, e.g. Taylor, 1983).

The specification is made up of an intercept term and three independent variables. *O* stands for openness, *U* stands for capacity utilization rate, and *RW* for real wages. The abbreviations after these variables for the pooled regression indicate the individual countries. Openness is identified as the sum of imports and exports over gross domestic product. As a proxy for the capacity utilization variable, we use the share of investments in gross domestic product, except for Colombia where GDP growth rate is used. This usage forms reciprocity between the proxy variable (investment share) and the actual variable, *U*, such that negative

coefficients reflect a positive relation between capacity utilization and share of capital increments in GDP. For Turkish and Argentine ordinary least squares regressions, dummy variables are used to retrieve some of the series for crisis periods rather than resorting to filtering methods like Hodrick-Prescott filter or band-pass filter. It was found that dummy variables absorbed much of the insignificance of these series in the regressions and improved the diagnostics substantially. For the panel regressions, no such additional variables are used.

CHAPTER 5

Analysis of Econometric Results

Systematic attempt to document a wide range of regularities across developing countries with diverse experiences with structural change, which is an effort of forming a general developing county structure, can only be assembled with a data of reasonable quality. Thus, I restrict my analysis to only six countries where I could have obtained such data within the period encompassing structural adjustments.

A bird-eye's observation of raw data with the help of markup figures for each country previously exhibited reveals an upward movement of average markup rates despite increased openness for each country. As an exception, Argentine and Colombian manufacturing industry patterns does not show resistance. The main channel of immunity seems to be regressing share of labor reflected as either maintenance or decline of real wages throughout the period. Coming to formal analysis, markup rates are regressed on openness, reciprocal of capacity utilization and logarithm of real wages with ordinary least squares for each country, and further panel regressions are conducted with the same variables and countries in order to look for a general pattern across countries. The results are tabulated in Appendix A.

The negative coefficients of real wages, which were found to be significant at 1 percent level, reflects *Marxian* dynamics throughout the period, which narrates the negative correlation between labor remunerations and capital's share. Turkey displays a contrast carrying a positive real wage coefficient, which corresponds to "extended" *Sraffian* dynamics with persistence of markup rates against wage increases. On the other hand, the pooled regression asserts that the negative correlation between markups and real wages can be generalized to the overall countries in the sample. Combined with this result, negative coefficients of capital formation as a share of GDP for Argentina, Chile and Turkey and positive coefficient of GDP growth rate in the regression for Colombia suggest that increasing capacity utilization has a positive relation with profits for these countries. A quick glance at the unemployment rates of each country, the proposition that this was maintained via labor-saving becomes apparent. Mexican manufacturing industry seems not to obey this proposition since it has opposite impact on profit margins.

On the other hand, while openness has a statistically insignificance problem in general except for Mexico in the ordinary least squares regressions, capacity utilization has a statistically insignificance problem in the pooled regression. Interestingly, openness has a positive but a small effect in magnitude on markup rates of Mexican manufacturing industry. The openness indicator for the remaining countries differs such that for Turkey, Argentina, Venezuela and Colombia it has negative sign while for Chile it has positive sign. Comparing relative magnitudes with respect to real wages, openness is less dominant in determining markup rates for Turkey while the opposite statement is valid for Colombia. For the pooled

regression, however, openness is more dominant compared to real wages. Given the diversity of these results, our verdict is that the econometric evidence is inconclusive, at best, on the relationship of profit margins vis-à-vis the degree of openness.

The coefficients reveal that the response or speed of adjustment of markups in spite of the export penetration and import allowance, changes in the amplitude of real wages and yearly capital increments or decrements was fast enough throughout the period considered. Turkey's stance is on the opposite giving relatively slow response of markup rates against aforesaid variables.

Putting things together, the results of the employed econometric model characterizes the period aggrandized as a classical accumulation episode based on wage suppression. The sector under analysis seems to be immune to expected rise of competition as a result of opening to world markets for the bunch of countries discussed. Wage extraction appears as the main tool for capital to sustain the profit trend in the post-1980 period. Increased unemployment rates and negative sign of real wages in the regressions support this proposition. Consequently to say, the process of both trade and financial liberalization has, in general, been inadequate to commence the erosion of profits due to expected intensification of competition in the manufacturing sector.

CHAPTER 6

Concluding Comments

In this thesis, the axis of investigation was the response of capital to the changing economic environment set forth by globalization, which intensified in the post-1980 period. The political economy of external liberalization and deregulation was discussed theoretically in order to enunciate the general intention of the empirical work. Starting from theories of value and market structures as preliminaries, a demonstration of distributional patterns regarding different economic settings was presented. It was concluded that patterns of factor payments are determined by means of social and political practices and power relations among classes contrary to the contemplation that distributional patterns are passive outcomes of the free interplay of competitive market forces. Thus, the corollary of this conclusion that profits resist against pressures of competition was tested econometrically.

Regarding the trajectories of real wages in the manufacturing industries of Argentina, Chile, Colombia, Mexico, Venezuela and Turkey, it was attempted to formalize on these observations to deduce econometric hypotheses on the patterns of trade liberalization, labor remunerations and profitability. For this purpose, empirical questions were put forward and investigated using time series and panel

data econometric analysis for the manufacturing sectors of aforementioned countries over the 1980-2001 period.

Observations on raw data portray a general decline in real wages and rise of markups in manufacturing sectors of the countries studied throughout the period. Besides the real wage erosion, the period is also characterized by the rising unemployment rates, which delineates deterioration of labor market conditions. Combining these observations with the results of ordinary least squares regressions, it is found that labor as a factor of production was a channel for maintaining profitability under the post-1980 era, which encompasses structural adjustment reforms and openness to the world markets. Turkey formed a contrast in the sense that real wages, which has a positive relationship with profit margins, seem to act as demand stimulant if the domestic demand conditions in industrial commodity markets are taken into account. As in the aforementioned Kaleckian model of distribution, growth of output may be wage-led after 1989. Another explanation of this irregularity may be on power relations: state, with the upcoming elections and rising labor movements, allowing labor to use some relative bargaining power in 1989.

Another result of the regressions was that capital formation as a share of GDP, which is a proxy to capacity utilization, showed negative impact on profit margins in Argentina and Turkey, while results for Mexico, Venezuela and Chile failed to pass the significance test. Colombia drew a different portrait with a positive relationship more in line with the theory. It seems that capital owners were reluctant to engage in productive investment in Turkey and Argentina while there were mechanisms to maintain profitability such as increasing productivity via labor

shedding. Finally, openness was found to be statistically insignificant with profit margins.

Panel regressions also confirmed the results of individual regressions such that markups display negative correlation with real wages as a common pattern through the countries in the sample. Interestingly, openness, which was statistically significant, came out to be positively related to markups in the panel regressions contrary to the results I got in the individual regressions. However, capacity utilization had statistically insignificance problem in the panel regressions.

Putting things together, the results of the employed econometric model characterizes the period aggrandized as a classical accumulation episode based on wage suppression. The sector under analysis seems to be immune to expected rise of competition as a result of opening to world markets for the bunch of countries discussed. Wage extraction appears as the main tool for capital to sustain the profit trend in the post-1980 period. Increased unemployment rates and negative sign of real wages in the regressions support this proposition. Consequently to say, the process of both trade and financial liberalization has, in general, been inadequate to commence the erosion of profits due to expected intensification of competition in the manufacturing sector.

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APPENDIX A: Econometric Results

	Openness	Capacity Utilization	Real Wages	Adjusted R^2	F-Statistic	DW test
Argentina	-1.528574	-55.91381**	-2.113127*	0.689902	12.12394*	1.036187††
Chile	4.180342	-29.53221	-2.870587*	0.944143	68.61164*	1.687081†
Colombia	-12.58745**	18.11453*	-4.040694*	0.936353	103.9823*	1.587286†
Mexico	2.624870*	13.44983	-9.420862*	0.961106	157.5008*	1.907023†
Turkey	-0.283972	-4.059430*	0.112077**	0.734176	12.7381*	2.133051†
Venezuela	-4.928736	-11.54803	-3.737989*	0.676278	14.2308*	1.551077†
Pooled LS	12.872684*	-5.19279	-0.7692108*	0.513274	36.5029*	0.188529
GLS (fixed eff.)	2.531524*	0.046904	-2.798931*	0.977706	2218.657*	0.709016††
SUR (com. int.)	11.57399*	-2.359456	-0.700859*	0.498153	14.2308*	0.161488

Note: * is statistically significant at 1 percent, and ** at 5 percent; † passed for DW test, †† inconclusive for DW test at 1 percent significance level

Wages and salaries (current LCU) (mill)	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Argentina	0	0	0	0	0	0	0	0	0	..	..
Chile	62,017.98*	97,980.12*	119,961.32*	116,326.86*	125,734.69*	136,991.87*	153,568.78*	188,772.21*	229,844	273,575	336,251
Colombia	..	..	..	..	80,700	103,800	128,600	168,000	220,700	288,600	429,300
Mexico	268	385	676	1,025	1,661	2,725	4,440	11,089	20,019	26,028	33,102
Turkey**	91,390.64	98,924.92	94,989.61	89,567.23	82,879.25	82,025.58	75,123.52	82,739.30	80,304.39	132,477.71	139,036.31
Venezuela	16,334	19,563	19,153	19,300	20,303	22,313	24,242	34,539	44,397	63,437	93,439
Markup	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Argentina	..	..	..	..	..	..	..	..	..	..	..
Chile	..	..	..	..	..	..	..	..	3.649632	3.8478114	4.0900369
Colombia	11.48994	10.16193	9.875526	9.218822	9.566493	9.231647	10.86403	9.67206	10.24654	9.947568	8.399704
Mexico	2.429104	2.231169	1.871302	2.433171	2.696568	2.779817	3.067342	3.152944	3.55767	3.2350161	3.2477192
Turkey	0.31214	0.385362	0.382749	0.328991	0.293344	0.320541	0.457894	0.387789	0.43845	0.3966889	0.4168615
Venezuela	1.841864	1.486735	1.744061	1.781606	3.165394	3.263882	3.523472	2.901097	2.92004	3.7954348	3.9233511

Wages and salaries (current LCU) (mill)	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Argentina	4,589	4,814	7,627	7,642	7,250	7,213	7,554	6,844	7,354	6,899	6,553	7,485
Chile	449,187	570,548	713,292	854,245	1,000,251	1,159,289	1,324,958	1,490,979	1,645,354	1,778,062	1,891,430	2,000,774
Colombia	474,900	710,900	1,197,300	1,662,000	2,059,000	2,525,000	3,068,000	3,547,894	4,106,214	4,675,000	5,280,000	5,729,458
Mexico	44,979	42,340	50,522	56,975	67,057	88,070	116,401	130,357	168,742	189,946	214,418	241,294
Turkey	186,419.45	219,362.25	245,179.78	188,688.18	162,866.56	163,298.18	181,461.45	..	..	..	..	..
Venezuela	130,591	185,940	229,068	364,266	481,000	735,942	1,647,059	1,994,334	1,689,580	2,968,224	3,926,965	5,122,086
Markup	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Argentina	8.6132055	9.2910262	4.6559591	5.002748	5.1382069	5.6162484	6.0667196	6.791642	5.539298	5.794753	5.58355	..
Chile	4.1389065	4.05351	3.2770703	3.1854971	3.2022152	2.8540002	2.7258162	2.34258	2.214635	2.211145	2.117358	..
Colombia	10.22715	8.134627	6.337963	5.047211	4.987859	4.708931	4.440969	4.48957	3.640664	4.466746	4.380373	..
Mexico	2.9736099	3.9212329	3.3532323	3.3003423	4.2217666	4.6150789	4.2875663	4.748007	4.240728	4.334795	3.723381	..
Turkey	0.4195171	0.427926	0.4512271	0.4795266	0.4543985	0.4362109	0.4473585	0.298043	0.274567	0.291329	..	..
Venezuela	3.3941849	2.9801818	2.9960361	2.7847946	3.8594969	6.1010705	3.1928826	2.76531	3.996868	4.367448	3.437586	..

Source: Branco Milanovic, World Bank.

* Wages, current LCU (million), ; source: Mazumdar et al., 1991.

** Real wage costs, constant LCU; source: SIS Manufacturing Data.

APPENDIX C: Systems of Equations for the Panel Regressions

GLS (Fixed Effects)

$$MR\_ARG_t = \alpha_1 + \beta_1(O\_ARG_t) + \beta_2 LOG(RW\_ARG_t) + \beta_3(U\_ARG_t)$$
$$MR\_CHL_t = \alpha_2 + \beta_1(O\_CHL_t) + \beta_2 LOG(RW\_CHL_t) + \beta_3(U\_CHL_t)$$
$$MR\_COL_t = \alpha_3 + \beta_1(O\_COL_t) + \beta_2 LOG(RW\_COL_t) + \beta_3(U\_COL_t)$$
$$MR\_MEX_t = \alpha_4 + \beta_1(O\_MEX_t) + \beta_2 LOG(RW\_MEX_t) + \beta_3(U\_MEX_t)$$
$$MR\_VEN_t = \alpha_5 + \beta_1(O\_VEN_t) + \beta_2 LOG(RW\_VEN_t) + \beta_3(U\_VEN_t)$$
$$MR\_TUR_t = \alpha_6 + \beta_1(O\_TUR_t) + \beta_2 LOG(RW\_TUR_t) + \beta_3(U\_TUR_t)$$

SUR (Common Intercept)

$$MR\_ARG_t = \alpha_t + \beta_1(O\_ARG_t) + \beta_2 LOG(RW\_ARG_t) + \beta_3(U\_ARG_t)$$
$$MR\_CHL_t = \alpha_t + \beta_1(O\_CHL_t) + \beta_2 LOG(RW\_CHL_t) + \beta_3(U\_CHL_t)$$
$$MR\_COL_t = \alpha_t + \beta_1(O\_COL_t) + \beta_2 LOG(RW\_COL_t) + \beta_3(U\_COL_t)$$
$$MR\_MEX_t = \alpha_t + \beta_1(O\_MEX_t) + \beta_2 LOG(RW\_MEX_t) + \beta_3(U\_MEX_t)$$
$$MR\_VEN_t = \alpha_t + \beta_1(O\_VEN_t) + \beta_2 LOG(RW\_VEN_t) + \beta_3(U\_VEN_t)$$
$$MR\_TUR_t = \alpha_t + \beta_1(O\_TUR_t) + \beta_2 LOG(RW\_TUR_t) + \beta_3(U\_TUR_t)$$