

## **Third World Labour Force Growth: Bad News For Unskilled First World Workers**

Will rapid labour force growth in the developing world force dramatic wage reductions in the OECD countries through international trade? The answer, according to Joseph Francois, writing in the latest issue of the *Economic Journal*, is a guarded no. But what we can expect is increased pressure on workers concentrated in low wage sectors, widening the gap between skilled and unskilled wages. There will also be increased pressure for migration into the OECD. The overall wage level, however, will be little affected.

Francois notes that public debate over trade policy in the OECD countries has been focused, in large part, on the impact of trade on wages and employment. In many circles, employment effects dominate national income effects as a measure of the desirability of trade and trade liberalisation. These concerns have been used as justification for calls to increase trade protection, especially against low wage countries.

To date, economic research on these issues has emphasised the recent historical experience of the OECD countries. But the misgivings of workers and politicians relate not just to the past, but also to nervousness about the future. According to the World Bank, the working age population of the less developed countries will grow 'very fast' at least as far as 2025. The growth rate of their labour force, by this measure, will be 2.3% to the year 2000, and 1.7% from 2000 to 2025.

Increased labour force participation by women in the developing world may accelerate this rate still further. Rapidly shifting age structures within countries and a rapidly growing labour force in the developing world have potentially important implications for long-run trade and investment patterns, and for linkages between trade and employment patterns.

Textbook trade theory predicts that this rapid labour force growth will have dramatic effects on wages in the developed world through the mechanism of international trade. But that is only because other factors, such as induced investment (a likely effect of rapid population growth, as shown by the example of East Asia) and changes in world prices are assumed away in textbook theory. Such factors make the answer much more complex.

Employing a mix of theoretical arguments and empirical modelling, Francois demonstrates that the overall impact of labour force growth and trade on wages in the developed world will be negligible. But unskilled workers will suffer and there will be increased migratory pressure. That suggests policy responses aimed not at trade protection, but instead targeting the skill levels of labour and the incentives for migration from the developing world.

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Note for Editors: 'Trade, Labour Force Growth and Wages' by Joe Francois is published in the November 1996 issue of the Economic Journal. Francois is at the World Trade Organization and Erasmus University in Rotterdam.

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