

Overview

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I welcome the opportunity to participate in this meeting. For one of the world's major financial institutions to devote its annual symposium on economic policy to the theme of reducing unemployment gives the objective of full employment the mainstream attention that it deserves.

The problem of unemployment has reached crisis proportions in most parts of the world. The figure of 35 million unemployed in the industrialized countries is well known to this audience. In some Eastern European countries, unemployment levels exceed 15 percent. Unemployment and underemployment are even higher in the developing world. The handful of dynamic Asian economies are an oft-cited exception. But they account for only a tiny fraction of the developing world's population and, indeed, half of the world's poor live in Asia. The unemployment problem should therefore be viewed in a global context.

Let me first present a few background facts: the world's **working** age population (15-year-olds to 64-year-olds) more than doubled between 1950 and 1990, from 1.5 billion to 3.3 billion people. It will exceed 4 billion people by the year 2005. In 1950, 65 percent of the world's **working** age population lived in developing countries. By 1990, the percentage had risen to 75 percent. Extrapolating from present trends, developing countries will contribute about 97 percent of new entrants to the global labor force between 1990 and 2025.

At present, the International Labor Office (ILO) estimates that 820

million persons in the world labor force are either unemployed or underemployed. While the numbers in registered unemployment in the world amount to 120 million persons, an additional 700 million can be classified as underemployed—engaged in an economic activity that does not allow the worker to reach a minimum standard of living.

An estimated 20 percent of the world's population, over 1.1 billion persons, live in poverty. Moreover, the gulf between the world's haves and have-nots is widening rather than narrowing. Thus, just as the distribution of income within individual Organization for Economic Cooperation and Development (OECD) countries has widened since the 1970s, so too has the distribution of the world's income, with a far larger divide between the wealthiest 20 percent of the world's population and its poorest 20 percent. We must not forget this broader setting when looking at industrialized countries.

• There is a profusion of contending explanations of the rise and persistence of high unemployment in industrialized countries. Many of these provide useful, albeit often partial, insights into various policy and institutional causes of the unemployment problem. The danger is that one could lose sight of the overall picture and adopt a partial solution as a panacea.

A case in point is the issue of labor-market rigidities. There is indeed broad agreement that this has been a factor in explaining different employment outcomes and that reforms to labor-market institutions are called for in specific cases. But reform does not mean a wholesale or uncritical dismantling of labor legislation and social protection. For one thing, there are other and probably far more important factors contributing to unemployment. To paraphrase Richard Freeman, the role of labor-market rigidities in the employment crisis is probably at most that of supporting actor—*Rosencrantz* or *Guildestern*, but not *Hamlet*. For another, the notion of rigidity or rather its converse, "flexibility," has come to cover such a multitude of situations and practices that it is more a vague nostrum rather than a practical policy tool.

Nothing more characterizes labor markets in the world than the diversity of rules and institutions in which they are embedded. Nothing could more obstruct real progress than a doctrinaire prescription

for supposedly universal application.

While opinion remains divided as to the precise magnitude of the effects of changes in global trade and production on the rise in unemployment and labor-market inequality in the industrialized countries, there is little doubt that these changes must be part of any comprehensive explanation of the problem.

There has been a shift in the international division of labor between the industrialized and the developing world. Compared to the early postwar decades when the global divide was between industrialized countries and predominantly agrarian and primary-producing developing countries, the situation today is quite different. There has been a significant shift toward some developing countries in the share of manufacturing production and exports. So far these are largely concentrated in the newly industrializing countries of Asia and Latin America. The share of developing Asia, including China, in world production rose from 13.8 percent in 1980 to about 20 percent by the end of the decade. Judging from recent trends, these countries will continue to industrialize rapidly. In addition, there will be the growing incorporation into the world economy of developing country giants like India and China as well as of countries of the former Communist world.

These changes require adjustments on the part of both industrialized and developing countries as well as in the institutions governing international economic relationships. With adequate adjustment responses, these changes offer benefits for all parties concerned through the mutual gains from trade and higher productivity and growth. It is therefore imperative to avoid the pitfall of thinking of global economic changes as a redistributive battle over a fixed pie.

This is not to belittle the very real problems of adjustment that are involved. The high unemployment experienced in many industrialized countries, accompanied in some cases by growing wage inequality and declining demand for unskilled workers, is a reflection of the difficulties of adjustment. There has been a decline in manufacturing partly due to import competition from newly industrializing countries and the relocation of production to these countries.

As regards the latter, there is growing concern with what Europeans have called “**delocalization**”—the closure of a plant in Europe and the creation of one making the same goods in a low-wage country for export back to the home country.

Both import competition and relocation have **kindled** some protectionist sentiment, but if a larger view is taken, it will be seen that these are part of normal adjustments which are inherent in an evolving global economy. Even without changes in the international division of labor, the rising incomes in industrialized countries necessitate a shift to a post-industrial pattern of production where services predominate. Similarly, with rising wages, there is no advantage in persisting in **low-skill**, labor-intensive production and delaying the inevitable shift to **higher-skill** activities.

The other part of the picture, that involving the developing countries, provides equally strong arguments for adjustment. These countries need the economic space to grow in line with their emerging comparative advantage and thereby to generate employment and to reduce poverty. Their growth will in turn provide an additional stimulus to world production and trade. There is indeed a clear basis for mutually beneficial adjustments in the global economy. It is perfectly consistent to argue the long-term benefits of such economic exchange, while at the same time, to acknowledge interim, negative impacts on some labor markets.

Within this difficult overall framework some disquiet has also arisen over the nature of technical progress. In the industrialized countries, the link between technical progress and the falling demand for **unskilled** workers has been evoked by speakers in this symposium. But the rapid obsolescence of skills and the disappearance in large firms of whole layers of management suggest that the job-displacing effect of technology could even be more pervasive.

For developing countries, there is the related concern that they face a growing technological gap and that the least well-endowed among them face growing marginalization from the emerging world economy.

Thus, while research and development as a percentage of GNP

amounted to 2.9 percent for developed countries in 1990, the equivalent figure for the developing world was just 0.64 percent. African research and development as a percentage of GNP, the lowest of all the world's regions, has actually declined over the past two decades. Multinational corporations are a major vehicle of technology transfer and indeed some 80 percent of all international payments for royalties and fees—a measure of technology transfer—are undertaken on an intrafirm basis. But since foreign direct investment and international subcontracting are concentrated in the developed world and newly industrializing countries in Asia and Latin America, the poorest of the poor regions in the world lag still further behind.

These, broadly speaking, are the main underlying forces which are influencing growth and employment prospects in the world economy. The effects of these forces on employment and labor-market outcomes in particular countries are conditioned by differences in policies and institutions. These include differences in the priority given to full employment in relation to other objectives, in macroeconomic policies, and in labor-market institutions.

We have seen in the past two decades a variety of outcomes as a result of differences in policies and institutions. Drawing clear policy lessons from this diversity of experiences is not an easy task since it ultimately depends on value judgments and is conditioned by different views on economic behavior and the workings of the economy. For instance, comparisons are often made between the job-creation performances of the United States and Europe. The U.S. economy has clearly outperformed Europe in terms of the number of jobs created—adding a net 18 million new jobs over the past ten years alone—and in maintaining a lower rate of unemployment. By contrast, the European Union (EU) countries, and since the 1990s, the European Free Trade Association (EFTA) countries too, have been witnessing "job-less growth." There has been hardly any net growth in employment in Western Europe over the last twenty years.

But the assessment clearly cannot end there since there are other dimensions to be taken into account, such as the higher level of inequality and inferior levels of social protection in the United States. We should beware of facile conclusions aimed at achieving so-called

flexible labor markets at the price of low levels of social protection. Speakers here—wisely, in my view—have not looked upon labor-market flexibility as an all-or-nothing proposition or as some abstract opposition between pure distortion and pure market freedom but as a problem of tradeoffs. High unemployment benefits of very long duration may indeed make unemployment persist but inadequate social protection worsens inequality and multiplies the numbers of "working poor."

Whatever a country's pattern of labor-market regulation, what can be said is that there is no clear contemporary model of a country which has managed to achieve both greater employment growth and greater equity while simultaneously adjusting smoothly to changing global economic forces. But this does not mean that the quest for full employment and equity is an exercise in futility. The task is difficult but surely not impossible. The objectives of full employment and equity were largely attained in the industrialized countries in the so-called "golden age" of the three decades after the Second World War. Undoubtedly, there have been many significant changes since then and the policies which were adequate then have not been so since. The challenge now is to develop a new generation of policies and institutional arrangements that can reduce unemployment and rising inequality:

How so? The way out of the apparent current impasse has to consist of a wide range of actions at both the international and local levels. At both these levels it is necessary to redress the downgrading of full employment and equity in relation to other objectives of economic and social policy. A renewed commitment to full employment as a key objective is a prerequisite for giving the problem the attention it deserves.

There are encouraging signs that the climate of policy opinion is shifting away from accepting prolonged high unemployment as an unavoidable and unchangeable state of affairs to a new determination to find innovative solutions. The "jobs summit" of the G-7, the Delors white paper on unemployment in the European Union, the OECD jobs study and, indeed, this very symposium, reflect a new concern and determination to solve the unemployment problem. Nor is this concern

confined only to the industrialized countries. The reduction of unemployment is one of the three priority issues that will be discussed at the World Summit for Social Development in March next year. As part of its preparations for this summit, the ILO held an informal tripartite meeting at the ministerial level in June to discuss the issue of employment. The meeting was attended by more than 100 ministers of labor and by leaders of worker and employer organizations from all parts of the world. Discussion was focused on an ILO working paper entitled "Toward Full Employment" which advocated a renewed international commitment to solving the unemployment problem.

There is, of course, no universally valid prescription for solving this problem. But there are, nevertheless, some broad generalizations that can be made, especially with respect to areas where international cooperation and policy coordination are necessary.

Of great importance at the international level is the consolidation of progress toward an open and fair global trading system. The recently completed Uruguay Round and the formation of the World Trade Organization are important gains. These developments offer the best hope of ensuring steady growth and job creation in the global economy from which all nations can potentially benefit. It is therefore imperative that the current problems of unemployment do not lead to a resurgence of protectionism. In addition to an open and fair global trading system, it is also necessary that the international financial system provide a stable and supportive environment for job creation worldwide. It is therefore important that the employment and social consequences of international economic and financial policies are duly taken into account. This includes not only issues of job creation but also those relating to the reduction of inequality between rich and poor nations. These concerns can be addressed by ensuring that the reform and strengthening of the institutions for global economic governance include provision for a strong "social pillar."

Turning to national policies, there is little disagreement that economic and social investments to support adjustments to changing comparative advantage in the world economy have a critical role to play. Investments in developing and modernizing physical infrastructure create jobs while strengthening the basis for future competitive-

ness and growth. Similarly, investments in education and training are important for enhancing the capacity of workers to adjust to job opportunities and to changes in skill requirements—whether in new industries in the broader labor market or internally within existing firms. The aim is to increase the capacity of workers' "employability security," as U.S. Labor Secretary Robert Reich underscored at the ILO's annual conference last June. This, after all, is the true source of labor-market flexibility and implies a strong role for labor-market institutions.

These generalizations are equally true for industrialized, transition, and developing countries when adapted to their specific circumstances. In the transition economies, the priority is, of course, to complete the task of developing the institutional and policy framework appropriate to a competitive market economy. Without such a framework, economic and social investments will not lead to enhanced competitiveness and the successful integration of these countries into the world economy. In many developing countries too, a major agenda of policy reform remains to be completed. In addition, there are huge challenges of building up basic administrative capacities and of ensuring adequate opportunities for escape from mass poverty. Rapid labor-intensive growth in line with their comparative advantage has been shown to be the most effective means for reducing unemployment, underemployment, and poverty.

There is every reason to believe that the objective of full employment can be reconciled with other imperatives, such as maintaining a low rate of inflation. But the paths toward solutions—the new institutional arrangements and cooperative bargains that will have to be struck—are no doubt many and complex and will vary from national setting to national setting.

A basic mission of the ILO since its inception has been to promote such cooperative solutions to economic and social problems with the active partnership of employers' and workers' organizations. The ILO is the only agency in the United Nations system that is structured on a tripartite basis and in which the interests of workers and employers as well as governments find full voice. By reflecting their plurality of interests, the ILO recognizes that the market for labor must be viewed

not only in economic terms of allocative efficiency but, to use Robert Solow's words, as a "social institution." Concepts such as equity and fairness matter—and not only through some abstract appeal to universal social justice but in hard economic and political terms. This more complex view of the global employment problem is shared by those of you who are exploring the causal links between economic deprivation, rising criminality, and social and political fragmentation. Given good will and a shared commitment to social justice on the part of governments, workers and employers, it is well within the reach of human ingenuity to work out viable arrangements.

Such an approach should also be applied to other issues of labor-market reform. Unilaterally imposed reforms breed resistance and resentment which will ultimately rebound negatively on economic efficiency. Also, since unemployment is only one symptom of labor-market dysfunction, it is important to be aware of the dangers of a blanket approach to deregulation or, to put it in other words, of the risk of throwing the baby out with the bath water. Applied uncritically, deregulation may result in exchanging one set of labor-market problems for another; reducing open unemployment, for example, at the expense of diminished job quality and higher inequality. When it comes to labor-market rules, what is needed is a more nuanced policy approach that looks at both sides of the accounting equation—that is, their benefits as well as their costs. This is because the overall effects of the rules we live and work by can rarely, if ever, be independently isolated. Rules give incentives or disincentives for behaviors by fitting together as a system. For example, while the costs of employment protection are real, so is its positive impact on incentives to provide and acquire training and on productivity.

The goal should therefore be to work out optimal reform packages tailored to the setting which provide for greater efficiency and flexibility with a minimal sacrifice of the benefits that flow from essential regulation of labor markets and from a decent level of social protection.

These issues of labor-market reform and of ensuring the right **tradeoff** between efficiency and equity are also important for transition economies and developing countries. In the transition economies,

the central problem is that of creating new labor-market institutions and an incentive structure that can ensure greater flexibility and efficiency in the allocation of labor while providing essential safety nets and retraining opportunities for substantial numbers of displaced workers. A prerequisite for meeting this difficult challenge is the strengthening of labor ministries and representative organizations of workers and employers since this is the best means for ensuring an optimal balance among competing interests in the creation of new institutions.

In the developing countries, labor-market regulations typically extend to only a minority of the workforce that is in the modern sector. But it would be wrong to conclude from this that the issue is only of marginal importance. Labor-market regulations are crucial for protection against exploitation and for ensuring basic worker rights. They are also often important for improving labor productivity and channeling economic competition away from dead-end, exploitative options.

I leave you with three main thoughts. First, let us build upon the specific and often probing discussions we have had these past days toward a focus on the broad and fundamental objective of full employment. Unless and until that objective acquires center stage as the objective of economic policy itself—rather than as a residual accorded various weight by policy groups—our progress will be limited and our solutions, short-term. Second, employment is not just a matter of numbers. While we are rightly preoccupied with the quantitative dimension, we should not ignore the qualitative dimension. Of course, in any given situation and at any given time, priorities may conflict and the right point of balance may be hard to find. But the conditions under which work is performed, the livelihood it provides, and the solidarity shown by those with work and income toward those without: these are also measures of a decent society. Third, and finally, labor markets, once again, are social institutions and, in the words of the ILO's constitution, labor is not a commodity. This is not to say that prices and quantities do not matter in our understanding of how labor markets work. But if we think this is all that matters, then we risk seriously misunderstanding how the fundamental notions of fairness, equity, and security are as powerful laws of economic and social behavior as any other.