ILO's 75th Anniversary

Global employment issues in the year 2000

The challenge of fostering global employment as the 21st century dawns will involve a judicious linking of the welfare safety net to an active labor market policy that affords incentives for persons to work and for employers to hire them

Juhani Lönnroth

Throughout its history, the International Labor Organization (ILO) has been deemed the "social conscience" of the world, linking the ongoing international debate on economic and financial issues with broader sets of social concerns. Among these concerns, employment has ranked high since the early years of the agency. Offering research and advice to its member states, the ILO has endeavored to keep employment on the world agenda and to strive for the creation of more and better job opportunities so as to increase income and enhance well-being the world over.

To illustrate, one of the very first Conventions adopted by the Organization was concerned with preventing and protecting against unemployment.[1] Some 25 years later, at the 1944 International Labor Conference, the agency adopted the Declaration of Philadelphia, which defined the guiding principles for attaining social justice in the postwar world. The declaration stated that "full employment and the raising of standards of living" should be among the principal objectives of the Organization's economic and social policy. In 1964, the ILO further adopted the Convention on Employment Policy (No. 122), which urged member states, in consultation with workers and employers, to declare and pursue active policies to promote "full, productive and freely chosen employment."[2] The Organization's World Employment Program, initiated in 1969, seeks a solution to the fundamental problem of how to enable the world's poor to reap the benefits of growth and thereby create conditions for sustainable development.[3] The ILO's work on structural adjustment in the 1980's had a similar emphasis: how to combine the need for efficiency and competitiveness with social concern for creating alternative employment opportunities and enhancing the system of social protection for those adversely affected by economic restructuring.

All along, the ILO's work in the field of employment has been guided by two considerations. First is the notion that, while employment is the result of an interplay of economic forces, it is also an inherently social phenomenon, fulfilling four basic functions: it provides income, social protection, and material well-being for the individual; it enables one to participate in and develop a sense of belonging to a social fabric; it develops one's personal skills and capabilities; and it allows one to contribute something meaningful to the national economy. As a consequence, the employment challenge cannot be posed only in quantitative terms: what matters is not only the number of jobs created by the world economy, but also the quality of those jobs—what they offer in terms of productivity, skills, and social and physical working condi-

Juhani Lönnroth is Director of ILO's Employment and Development Department. The views expressed herein are the author's and are not a statement of the views of the U.S. Department of Labor or the Bureau of Labor Statistics.

tions. These same elements also explain the complexity of the employment phenomenon: the employment-related outcomes of any given policy cannot be directly and solely determined by economic factors, but also are a function of a multitude of institutional, cultural, and social forces, as well as individual attitudes and preferences.

Second, the ILO's work has been guided by an inherent conviction that it is possible, economically feasible, and socially just to create conditions under which opportunities for gainful employment can be provided for everyone. This optimism was fueled by prewar experiences, New Deal responses to the Great Depression, and the visions of John Maynard Keynes and others, who argued that demand management through monetary and fiscal policies could maintain full employment under noninflationary conditions. Optimism was strengthened during the "golden era of high growth" in the 1950's and 1960's, when the problems of the day appeared to be a redistribution of wealth and a containment of inflationary pressures, rather than the risk of unemployment. Few were prepared for a situation in which high growth would come to an end, returns to technological progress diminish, and world trade expansion subside under protectionist tendencies.

Full employment: a moving target

As we approach the turn of the century, we see more and more clearly that the challenge of providing productive and remunerative employment under decent conditions for those who desire it has not been fully met. Admittedly, the picture is not uniform, and there are encouraging signs now that cyclical recovery is underway in the world economy. Still, the objective of full employment, recognized explicitly or implicitly by most countries, has become an evasive moving target, not guaranteed merely by positive growth. Indeed, to the contrary, structural imbalances in labor markets, the marginalization of certain groups, and the share of precarious, low-quality jobs in many countries have continued to grow. These imbalances in the industrialized world have their counterpart in a large number of developing countries in the form of growth in the informal sector of the economy, high levels of underemployment, and a deterioration of real wages.

In the recent past, the employment record across the major regions of the world has been fairly grim. In the developed economies, the relatively strong output growth in the second half of the 1980's was no lasting remedy for unemployment, which returned in the 1990's to the levels of the early 1980's.

In those countries under the aegis of the Organization for Economic Cooperation and Development (OECD), workers without jobs now number nearly 35 million, compared with 10 million in the 1960's and 25 million in 1990. The official unemployment rate for these countries was, on average, 7.7 percent in 1991–93, with the European Economic Community registering 10.3 percent during the same period. (See table 1.) Within the past year or two, unemployment rose to 20 percent in Finland, 19.5 percent in Ireland, and 22.5 percent in Spain. Among the OECD countries, the United States and the United Kingdom have recently made some improvements in their unemployment rates, and Japan continues to sustain low levels of unemployment, attributable partly to its lifelong employment security system.

In the developing countries, employment and real wages have been either on the decline or stagnant in the recent past. Admittedly, growth in both of these items has been very uneven in the 1990's, ranging from 11 to 13 percent in China, to more than 5 percent in the fast-growing South and East Asian countries, to some resumption of growth in the Latin American region after its "lost decade" of the 1980's, to a generally dismal record in sub-Saharan Africa.

As measured by the ILO's official criteria, the unemployment rate in the developing countries is very low; but this measurement is deceptive, as the formal labor market is very small. For example, in Bangladesh, the measured rate is an incredible 3 percent, yet more than 40 percent of the population is below the poverty threshold. Similarly, in most other South Asian, African, and Latin American countries, the severity of the employment situation is better understood by figures on underemployment. In very broad terms, about one-third of the labor force in these countries is underemployed; in the recent past, even official unemployment rates have been increasing.

Table 1. **Gross domestic product (GDP) growth, unemployment, and inflation rates, selected regions and countries, 1981–93**

[In percent]

Region or country	GDP growth rate			Unemployment rate			Inflation rate		
	1981–85	1986–90	1991–93	1981–85	1986–90	1991–93	1981–85	1986–90	1991–93
Organization for Economic Cooperation and Development . . .	2.4	3.3	1.2	7.8	7.0	7.7	7.0	4.4	4.6
European Commission	1.5	3.3	.8	10.0	10.1	10.3	9.0	4.3	4.7
United States	2.6	2.7	1.6	8.3	5.9	7.0	5.5	4.0	3.6
Japan	3.8	4.5	1.6	2.5	2.5	2.3	2.7	1.4	2.5

SOURCE: Organization for Economic Cooperation and Development, *Economic Outlook*, December 1993.

In Eastern and Central Europe, the introduction of sweeping economic, political, and institutional reforms has led to massive declines in output and employment. During 1992, real gross domestic product declined by about 7.5 percent in Central Europe and 18.5 percent in the countries of the former Soviet Union. The major job losses came in the wake of restructuring the state and cooperative sectors, as well as through a slowdown of economic activities brought about by stabilization and adjustment of the economy. (See table 2.)

The employment crisis

A vast literature exists on the causes and consequences of the preceding trends. While many explanations are partial and conflicting, the employment crisis is generally attributed to a combination of three factors: stagnant or declining aggregate demand in the world economy, structural changes in national and international production systems, and misguided or wrongly timed policies.

Looking beyond cyclical variations, we find that growth in global output has been on the decline over the last 25 years. Despite the ongoing debate over growth in unemployment, it is clear that there exists a strong negative correlation between unemployment and growth. Job opportunities cannot grow in the absence of overall economic growth. Because the economies of the OECD countries account for three-quarters of world output, the problems in those countries have had an effect on developments in the world as a whole. An added dimension has been provided by the aforementioned collapse of the state-controlled economies of Central and Eastern Europe, which has had adverse repercussions beyond the region due to diminished trade and a shift of assistance from other areas toward these countries.

The slowdown of employment growth in the industrial countries has been linked with structural changes brought about by the advance of new technologies—especially microelectronics—and shifts from manufacturing to services and, within those sectors, from simple and relatively homogeneous skills toward more complex problem-solving skills. Also, regulations and institutional rigidities in the labor market may distort and perpetuate obsolete structures, as well as prevent the smooth adaptation of a country's economy to new circumstances.

In the developing nations, with the exception of the high-growth East Asian countries, it would have been desirable, given the deterioration of the terms of trade for their main export products, that a shift toward higher value-added and more competitive production had taken place. Yet, while the developing countries would have attempted to pursue higher growth and bring about structural changes to enhance living conditions, such changes in sectoral contributions to gross domestic product and to total employment have been less pronounced than would have been expected. For example, during 1986–91, the industrial sectors of many developing countries of Asia and Africa accounted for less than 10 percent of total employment in those countries' economies. Especially in the least developed countries, agriculture remains the dominant sector of the economy, contributing nearly 40 percent of gross domestic product. (See table 3.) Nearly three-quarters of the labor force in these countries is engaged in the agricultural sector. In the absence of an increase in job opportunities in other sectors, there has been a high level of underemployment in agriculture, as well as a steady and sustained migration of the rural work force to urban areas, which has in turn contributed to increasing informalization of these countries' urban economies.

A significant feature of the changing employment structure that is shared by developing and developed countries alike is women's increasing participation in the labor force. An exception to this trend is the Central and Eastern European countries, where the process already was advanced. The increasing labor force participation of women has been either demand induced (as in the industrialized world in the 1960's and 1970's and in the fast-growing East and South Asian countries) or poverty induced, to augment the subsistence economy of many poorer countries' households. Thus, in Africa and Latin America, women's participation rates have increased in urban areas. (In rural areas, women usually work full time on farms.) In the industrial countries, women now account for 45 per-

Table 2. **Unemployment rates of selected countries of Central and Eastern Europe and Russia, 1990–93**

[In percent]

Country	1990	1991	1992	1993
Bulgaria	1.5	10.8	18.9	—
Czechoslovakia	1.0	4.0	5.8	—
Hungary	1.0	5.0	11.7	—
Poland	3.5	9.7	15.3	—
Romania	—	3.0	6.6	—
Russia	—	—	.8	1.0

NOTE: Dash indicates data not available.

SOURCE: Commission of the European Communities, *Central and Eastern Europe: Employment trends and developments* (Brussels, Alphemetrics, 1993).

cent to 50 percent of the labor force; however, in Europe, their pay averages just 70 percent to 80 percent of men's earnings, and in Japan and the Republic of Korea, the figure is only 50 percent. The increasing influx of women into the labor market, as well as their pay and occupational structure, creates new challenges, both in terms of the quantity and quality of jobs to be created and in terms of meeting the objectives of equal opportunity.[4]

It has also been argued that many of the world's employment problems have been policy induced, in both industrialized and developing nations. In industrialized countries, especially those of Europe, governments appear to have stimulated their economies in the 1980's through loosening their fiscal and monetary policies. In the 1990's, the same governments have been accused of having overreacted to the fear of inflationary pressures,[5] and of pursuing excessive monetary and fiscal restraint, thereby putting a brake on employment growth and, in general, economic growth. Similarly, large public deficits, due to an increase in public sector employment and the financing of social policy reforms, allegedly have diverted resources from more productive and competitive use in some countries. The financing of social protection through payroll taxes has been criticized for raising overall unit labor costs, thereby biasing the relative cost of labor versus capital and causing discrimination against the use of labor, especially at the low-skill end.

A number of policy issues have also been identified in the developing world. Among other things, the growth of output and employment has been held back by an excessive regulation of both the labor market and business enterprises. In some countries, the creation of new enterprises may be subject to hundreds of administrative regulations. Exchange rate controls have led to an overvalued currency and an artificially low price for capital investment, thereby discouraging the use of labor. Import substitution policies protecting domestic production have not afforded sufficient incentives for promoting exports. Fiscal policies have been inconsistent, and large deficits have been incurred through domestic and external borrowing, resulting in rising interest payments. Government expenditures have been biased toward military investment and politically expedient short-term goals at the expense of long-term social and infrastructure development, including expenditures on education and training. In recent years, however, massive policy changes have been undertaken throughout the developing world in order to attain macroeconomic stability and install an effective incentive structure based on market liberalization.

Table 3. **Economic diversification in selected developing regions, 1965 and 1988**

[In percent]

Region	Share of agriculture in gross domestic product		Share of agriculture in total labor	
	1965	1988	1965	1988
Asia	39	27	76.0	64.9
Asia excluding China and India	36	21	69.6	54.1
Sub-Saharan Africa	39	33	82.6	72.8
Near East and North Africa	24	17	62.6	39.3
Latin America and the Caribbean	16	11	44.4	27.4
Least developed countries	43	40	83.4	74.9

NOTE: Data are for 114 developing countries.

SOURCE: *The state of world rural poverty* (Rome, International Fund for Agricultural Development, 1992).

The outlook

The backlog of high unemployment and underemployment inherited from the past is a heavy burden to carry as a country proceeds to meet the challenges of the future. What is particularly troubling is that policymakers who in the 1970's and early 1980's designed measures to combat what was thought to be a cyclical phenomenon have found themselves confronted with an increasingly structural problem. The incidence of long-term unemployment, unemployed youth, and economically disadvantaged groups is increasing. In many countries, the number of low-paying, low-productivity jobs has increased, the incidence of temporary and part-time work has risen, and wage differentials between skilled and unskilled workers have widened. Similarly, the ranks of the unemployed include an increasing number of persons with white-collar and technical skills, including middle-level managers and "backstage" office workers whose skills have been rendered obsolete by structural change and the advancement of computer technology. Helping these individuals adapt to and reenter the labor force will require a quite different set of measures than those designed for an earlier era, when manufacturing employment, a set of well-defined individual occupations, and a largely homogeneous labor force was the rule.

In addition, the estimated figure of 120 million currently unemployed at the global level is only the tip of the iceberg, as it relates just to unemployment in the formal sector. The "discouraged worker" effect, as well as underemployment, resulting in poverty and marginalization, is a much more widespread phenomenon, in industrial and developing countries alike. It has also

been estimated that, despite the fluctuation in the official unemployment rate in the industrial countries, the total share of "nonemployed" (the unemployed plus the economically inactive, including discouraged workers) is fairly constant. This evens out somewhat the differences between the United States and Europe.[6]

Looking, then, beyond this initial base into the future, we know that the level of employment will be determined by two dynamic forces: the evolution of the labor supply, which is a function of the growth of the working-age population and changes in participation rates; and the future evolution of aggregate demand, output growth, and productivity, which determines the number of jobs created. As regards the labor supply, about 40 million people enter the labor force in the world every year. As a consequence, roughly 400 million new jobs would have to be created over the next decade to absorb these new jobseekers worldwide. Adding to this the stock of jobless in the formal sector and the underemployed in the informal sector, the requirement would amount to roughly 1 billion jobs created over the next 10 years if we were to eliminate the unemployment and underemployment we now are facing.[7]

Globally, therefore, the employment outlook for the next decade does not look very bright. While the latest estimates of the International Monetary Fund predict a return of world output growth to 3 percent in 1994 and 3.7 percent in 1995, and while the liberalization of world trade after the successful conclusion of the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) is expected to boost global economic expansion, considerable uncertainty exists as to the sustained duration of the recovery.[8] And even if world output growth returns to the longer term trend of 3 percent per year, it may not be sufficient to match the increase in the labor supply. The only exceptions would seem to be South Asia and East Asia, where some countries and some sectors are already experiencing labor shortages due to the strong expansion of their markets and their employment demand.

Strategies for employment growth

It is against the foregoing background that the appropriate strategies to meet the employment challenge have to be assessed. These strategies have to be much more integrated and fine tuned than before. Also, they must be matched with particular circumstances, which differ among regions and countries.

Thus, in the developing world, finding a solution to population growth may be a key to a sustainable employment policy. Similarly, investment in human capital, alongside universal primary education, has proven to be helpful in reaching a "takeoff point" for growth. Furthermore, because 60 percent of the population in developing countries still lives in rural areas, agricultural reform, rural development through an effective decentralization framework, and the provision of alternative rural employment opportunities are important elements of an employment policy. Also, viable solutions to urbanization, to the upgrading of the informal sector, and to the protection of its workers have to be found. Finally, participation in the global economy requires policies for promoting trade, rather than inward-looking strategies of substituting for imports.

In the industrialized world, the situation is equally complex. There, the solution is much more directly linked with restructuring the manufacturing sector and services, reforming the public sector, and allowing labor markets and productivity developments related to investments in technology, work organization, and human resources to function as effectively as possible.

The market sector approach. One approach to meeting the qualitative and quantitative aspects of the "job gap" is to generate new employment opportunities through an expansion of the market sector. This option is exemplified by the consistent growth-oriented policies of the fast-growing South and East Asian countries over the last few decades and by the experiences of Germany, France, Belgium, the Netherlands, and the United Kingdom during 1985–90. In all of those countries taken together, market sector output grew quite rapidly (about 3 percent per year) over the period. Because the yearly productivity increase was less than 2 percent, and the total hours of work in the market sector grew by 1 percent per year, the result was rising total employment levels.[9] However, as experience has amply demonstrated, it is not easy to sustain an employment expansion through the market sector. There appears to be a fair amount of agreement about the stimulation of investment—especially private investment—as a key to maintaining competitiveness and growth in the economy; still, further conditions have to be fulfilled to achieve higher investment levels. Among these conditions are consistency of policies, stable exchange rates, fiscal balance, a tax and interest rate policy that affords incentives to invest, and a high rate of private and public savings to provide the capacity to invest.

Much has been said and written about "jobless growth," a process in which economic expansion is held to take place without a concomitant increase in the number of jobs. This would be a result of the net destruction of job opportu-

nities through technological innovation and rising labor productivity. However, whatever evidence there is that growth in the future will be more and more jobless is not convincing. In fact, experience in both the United States and Europe shows that the "employment intensity of growth" has increased over the years. "Employment intensity," or the marginal rate of job creation, is linked to many factors, such as productivity, the changing locus of production from manufacturing to services, and the relative prices of labor and capital. But it appears that the rate of job creation at any level of growth is now higher than it was a decade ago. There is therefore a strong case for growth-oriented policies.

The nonmarket sector approach. Another approach to bridging the employment gap is to increase employment opportunities in the nonmarket sector. The Nordic countries especially, as well as some other European countries, have used this approach by covering a decrease in private sector employment with jobs funded by state or local governments. As long as the new jobs can be financed through a sufficiently broad tax base or external borrowing, unemployment can be kept at bearable levels. Yet, experience has shown the limits beyond which public expenditures become unsustainable, marginal tax rates render entrepreneurial initiative prohibitive, and budget deficits weaken the ability of the government to meet external shocks. Thus, it is perhaps no coincidence that many countries that implemented an employment policy merely through public sector employment growth are now struggling with severe structural employment problems.

In many developing countries, employment in the formal sector has been virtually equivalent to employment in the public sector. The dominance of the state both in the provision of services and in the production of goods has in many cases resulted in an inefficient, unproductive, and noncompetitive economy. As a consequence, reform of the public sector has been one of the key elements in most structural adjustment programs in the developing world. Yet, the resulting retrenchments of public sector employees have led to additional strain and social problems in these countries, because alternative employment opportunities in the private sector are absent, formal labor markets are nonexistent, and labor market institutions are in their infancy.

The role of labor market institutions

Over the last decade or so, the debate on employment policy in the industrialized countries has focused rather heavily on the question whether the lack of employment growth is caused by a prohibitive microeconomic framework. Distortions and rigidities in labor markets are attributed to regulations and high labor costs, especially nonwage labor costs, such as payroll taxes, used to finance social protection in most European OECD countries. Comparisons between the United States and Europe have been used to demonstrate that unemployment in the United States is a result of the relative ease with which employers dismiss their employees—which leads to higher labor turnover, but shorter spells of unemployment—whereas unemployment in Europe is the result of employers' reluctance to hire new employees (allegedly because employees' jobs are better protected)—which leads to lower labor turnover, but longer spells of unemployment. Aggregate comparisons of the share of long-term unemployment and young entrants to the labor market have been used to validate this hypothesis. (See table 4.)

One element of the debate over labor market flexibility is the role of labor market institutions, such as collective bargaining and wage-setting mechanisms. In this context, it has been said that there is a positive correlation between trade union power or trade union membership and unemployment.[10] However, studies on the legislative changes affecting trade unions in the United Kingdom did not find any observable effects on unemployment.[11] Indeed, comparisons made between the 1970's and 1980's by the OECD show a *negative* correlation between union membership and unemployment.[12]

Rather than unions, it is the changing structure of labor markets that affects employment gains or losses: jobs have increased in the service sector, where trade union membership has traditionally been weaker. Other studies, comparing economic performance in the United Kingdom and in Germany, have concluded that the strong industrial performance in West Germany before unification was largely due to institutional constraints, such as strong unions, which forced companies to pursue a strategy of continuous modernization and improvement, and a rigid wage determination, which forced employers to adapt their products to markets that were capable of absorbing relatively high-wage production.[13] Labor market institutions can therefore also be a powerful factor in restructuring a production system toward greater competitiveness and more robust employment in the long run.

Active labor market policies can be seen as an alternative to deregulation of the market to promote greater flexibility. The fundamental objective of such policies is twofold: to promote economic efficiency by an improved matching of labor demand with supply, thereby preventing bottlenecks, alleviating inflationary pressures,

and providing better conditions for growth; and to enhance equity by improving equal access to employment, reducing the duration of unemployment, and preventing the marginalization of less competitive groups. While the share of the gross domestic product allocated to public expenditures on active labor market policies is rather small (between 2 and 5 percent in a typical OECD country),[14] an attempt has been made, notably in the Nordic countries, to give these policies a role in the economy. By encouraging occupational and geographic mobility and by subsidizing employment counseling and employment services through such policies, these countries have fostered better wages and income equality. By combining unemployment benefits with training, worker rehabilitation, and other incentives, the Nordic countries have provided a "carrot" approach to labor market participation, compared with the "stick" approach of the U.S. system, where relatively short periods of unemployment compensation provide a strong incentive for undertaking an active job search. Both approaches appear to have the same objectives, but the means of achieving them are different, and so is the distribution of the burden of adjustment among the worker, the employer, and society.

As regards the employment outcome of active labor market policies, much depends on how they are designed and implemented. Current thinking tends to prefer targeting such policies toward labor supply measures, such as training, job searches, mobility, and employment services. Labor demand measures, such as employment subsidies and relief work, may run the risk of perpetuating obsolete production mechanisms and exerting a strain on public budgets, unless they are targeted to enhance the labor market access of the most vulnerable groups or to bring about a better infrastructure for the competitive market sector.[16] Yet, even labor supply measures such as training may not provide better employment outcomes; to do so, they must be clearly and actively linked with the provision of and the demand for skills. Otherwise, these measures become merely another means of disguising unemployment, which does not improve an individual's employment prospects.

Table 4. **Profile of unemployment in regions with countries in Organization for Economic Cooperation and Development, 1992**

[In percent]

Region	Unemployment rates			Long-term unemployed as a share of total unemployment[2]
	Total[1]	Youth	Women	
North America	7.8	14.6	7.3	11.2
Japan	2.2	4.5	2.2	15.4
Oceania	10.7	19.5	9.9	34.2
European Commission	9.5	18.4	11.5	45.8
European Free Trade Area	5.5	9.3	5.0	13.1

[1] Comparable unemployment rates for the European Commission countries and national estimates for the other countries.

[2] Long-term unemployed are all persons unemployed continuously for 12 months or more. Figures for the European Commission are from 1991.

SOURCES: *Employment Outlook* (Organization for Economic Cooperation and Development, 1993); *Labour Force Survey* (Eurostat, *1991*); Austrian *Mikrozensus*; *Enquête suisse sur la population active*.

The tempting "low road" alternative

Within both the market and nonmarket strategies, various options remain. One of the (implicit or explicit) objectives of labor market deregulation in the industrialized world has been to allow labor costs to fall, thereby enhancing the market access of less competitive groups and recouping some of the manufacturing jobs "lost" to the developing world. Thus arises the question of whether one should adopt a "low road," or low wage–low labor cost, strategy for employment growth. A number of observations are pertinent here. To begin with, there is no simple mechanical relationship between labor costs and employment. It has been argued, for example, that the failure of relative minimum wages to fall in France, due to minimum wage legislation, has hurt young entrants to the labor market by diminishing their employment prospects.[17] On the other hand, some studies in the United States have demonstrated that a rise in minimum wages in specific industries could encourage enterprises to upgrade their work forces, become more competitive, find more and better workers, and thereby also provide more jobs.[18] And complementing this example is that of the Latin American middle-income countries in the 1980's, where employment did not expand even though real wages, and especially minimum wages, fell dramatically over the decade.

The relatively strong employment performance of the U.S. economy in the 1980's is another case in point. The strong U.S. performance has been associated with a proliferation of low-wage, low-productivity jobs ("hamburger-flipping jobs") barely providing sufficient income for a family of four. Looking at the most recent developments, however, and disaggregating the figures, reveals a more diversified picture: wage employment increased by almost 1.5 million between mid-1990 and the first quarter of 1994. The industrial sector as a whole registered an employment decline of 2 million, and large service enterprises, as well as the Federal Government, lost half a million workers. But the remain-

der of the service sector (including specialized services to larger enterprises, personal services, and decentralized local administration) registered an increase of more than 4 million jobs. Thus, while the total wage bill of the economy declined through these sectoral shifts, the jobs created *within* both the declining and the increasing sectors appear to have generated higher value added and to require higher skills, compared with previous periods. Thus, a recovery of employment seems to be linked to a search for innovation, modernization, and increased complexity of jobs.[19]

Some studies have shown that the demand for unskilled, low-wage labor has declined by only 6 percent between 1985 and 1990, due to North-South trade. Nonetheless, even if the trend continues, the wage differentials are so large that it would hardly be politically realistic or socially feasible to lower industrialized countries' labor costs to competitive levels.[20] Instead, would not an international division of labor through a gradually increasing wage and income level brought about by an open trade regime create new demand for a different set of high-quality products and services supplied by the industrialized countries?[21]

What about the "high road"?

One alternative to that in the preceding section involves a redistribution of available jobs more evenly through, for example, a reduction in work time or jobsharing arrangements. This strategy is based on the assumption that the range of jobs in an economy remains constant. It would presumably enable us to approach full employment, with everyone having access to employment at a slightly lower level of income and, simultaneously, more free time to engage in other activities, thereby increasing consumption and demand in the "leisure industry." The obvious risk of such an approach would be a decrease in productivity and, thus, a loss of competitiveness in the world economy.

Another, "high road," strategy would be to search for a competitive edge in production, with rising technology and skills achieved through strong investment in research, innovation, and adaptability of the work force. Such production, highly exposed to the global economy, would presumably act as a locomotive for that economy, giving rise to wealth and income, but employing a shrinking number of workers in traditionally defined jobs. The remainder of the work force would have to be occupied in "socially useful" activities, remunerated through transferring the wealth generated by the competitive sector to the other sectors of society. This strategy would lead us toward an "active society," in the sense defined by the OECD. The obvious risk is that it would strengthen the tendency toward a "two-tiered society," with a deepening schism between skilled and unskilled labor. Therefore, a requirement for success of the strategy would be to recognize the important role of the public sector in developing and maintaining a transfer mechanism that would ensure both efficiency in production and equity in the distribution of wealth. The European Union "Whitebook" takes the optimistic view that it is possible to combine a policy of increasing productivity and competitiveness in the high-performing export sector with a policy of redistributing the wealth thus created to serve new needs in labor-intensive domestic production and private services.[22]

The "high road" strategy also is based on the recognition that the need for overall human resources has largely surpassed the need for physical qualities as a prerequisite for competitiveness and growth in employment. To illustrate, those developing countries that have fared better than others have done so because they have made a conscious investment in basic education. High-performing countries also have a larger share of scientists and engineers in their population than do low-performing countries.

In the industrialized world as a whole, only half of all school leavers have more than a secondary school certificate, compared with 75 percent in the United States and 90 percent in Japan. The importance of the higher level skills attained with greater education is related to two phenomena: the "dematerialization" of production that is marked by the increasing importance of the generation, organization, and dissemination of knowledge; and the proliferation of services based on the use of multiple skills. For example, in a modern enterprise, easily between 75 percent and 95 percent of the salaries are linked with the *organization* of work, rather than the production process itself. This makes the skill and technology to organize work a significant element of competitiveness and thus of the creation of jobs.

Globalization and market liberalization

The preceding section amply demonstrates that while the employment challenge has become a "one-world problem," it also is increasingly multifaceted. Accordingly, there are no panaceas, and no single measure will work alone. Also, the challenge will have to be met within a new world paradigm, characterized by the twin keywords of "globalization" and "market liberalization." *Globalization* is a complex phenomenon, the effects of which are still not fully understood. It consists of a number of elements, some of which have been developing for some time. A decrease

in transaction costs, the creation of global capital markets for products and services, and universal access to media and new information technologies all point toward a growing, unprecedented interdependence of national economies. Globalization offers a potential for increased flows of investment, a further boost to international trade, and more equitable growth. It must therefore be seen as an opportunity for all regions of the world to reap the benefits of an evolving international division of labor. But it is precisely this international division of labor that is influencing the global distribution of jobs, for example, through the increasing role of transnational corporations, an emphasis on flexibility, and the delocalization of production. While there is a strong consensus that globalization will enhance output and employment in aggregate terms, there is much less agreement as to how fair the distribution of either of these will be across nations.

Simultaneously with globalization, we have witnessed the end of the Cold War and the failure of state control as an economic paradigm. The reliance on markets has become the prevalent "world model," inseparably linked with liberal democracy based on pluralism and participation. Because the interplay of market forces is considered to promote efficiency, the issue is more the *degree* of market liberalization than the *principle* itself. The "market paradigm" has, however, profoundly changed the role of the state as an economic actor in many parts of the world. Rather than acting as a direct provider of goods and services, the state has become a facilitator—an agent that creates conditions for a fair and efficient interplay of economic and social forces within a society. At the same time, the power of any single government directly to control and bring about economic and employment outcomes appears to be diminishing.

The future of international migration goes hand in hand with globalization. The growing gaps in the quality and quantity of jobs available to those with the requisite skills and those without, as well as the imbalances in economic development in the world, also have increased pressures for international migration. Very simply, the resulting choice appears to be between accepting an increased penetration of the *products* of the developing world and accepting an increased inflow of the *people* of the developing world into the industrialized countries. But as capital becomes increasingly volatile, and economic integration proceeds through trade in commodities and services, the labor markets will become more and more integrated through international labor movements. This gradual transition toward global labor markets raises the question whether national rules need to be supplemented by international mechanisms to ensure that those markets function both efficiently and equitably.

Conclusion

The policy choices for addressing the global employment problem are complex and contain many political sensitivities and social risks. However, the preceding analysis points to a number of general conclusions.

First, employment policy will have to take into account developments in both the supply of and the demand for labor. While demographic changes with an impact on the supply of labor are difficult to bring about in the medium term, it is necessary to find solutions to population growth in many parts of the developing world. Without such changes, it may be difficult to achieve a more balanced evolution of the labor force, thereby rendering insufficient any growth in the demand for labor that might be created. However, the focus on the supply of labor should not only be quantitative; rather, it should also take into account human skills and generate a consistent, long-term strategy for their development, as these skills are likely to play a crucial role in the creation of vicious cycles, in terms of both future population growth and an increased competitiveness on the part of nations.

Second, over the last few years, the debate over employment has focused more on the symptoms than the root causes of the problem. As a consequence, employment policies are also often targeted predominantly on the victims of market failure, rather than on the search for and creation of viable and productive new employment opportunities. To expand employment in an economy, there are three basic options: generate additional work through an expansion of the market sector, generate work through the nonmarket sector—basically through state-funded public sector employment—and distribute available job opportunities more evenly through jobsharing and reductions in work time. Each of these has been adopted over the last few decades to varying degrees and with varying success. While the options concern mainly the industrialized countries, they are also applicable to developing countries, with the qualification that, for example, jobsharing in the developing countries should be understood within the context of the informal, subsistence economy, in which people obtain work through extreme reductions in real wages.

Third, these options need not be mutually exclusive: elements of each can be combined in an employment strategy that is adapted to particular circumstances. But it is only by achiev-

ing additional demand through an expansion in the market sector of goods and services that the other two options are likely to be sustained and, indeed, even possible. The resumption and maintenance of higher growth levels continues, therefore, to be a necessary condition for an expansion of employment opportunities, in both the market and public sectors.

Employment growth, however, is not a sufficient condition for expanding employment opportunities: in the ongoing process of globalization, with a widening and deepening of world markets for capital, goods, and services, the creation of a global macroeconomic framework for sustainable growth is important. This requires macroeconomic stability at both the national and international level, which includes an increased coordination of policies, an avoidance of "beggar-thy-neighbor" actions, stable exchange rates, fiscal balance, and tax policies that encourage investment and initiative. While it is certainly necessary to promote open trading systems to enhance competitiveness and growth, it may also be necessary to develop international mechanisms to enable all regions and groups of individuals to reap the benefits of globalization.

Fourth, "deregulation" and "labor market flexibility" are widely used keywords in the debate over job creation. While there are clearly demonstrated cases (for example, in the developing countries) in which excessive regulation of economic activity prevents the creation of jobs, deregulation as such does not necessarily create new demand, but rather changes the framework within which demand is translated into jobs. Indeed, it is clear that labor regulations matter for the functioning of labor markets. It is also clear that full employment cannot be legislated. What is much less clear is the direction of the effects of regulations.

While there is a need to ensure basic protection to all citizens, there is also a need to align the safety net with the financial capacities of the state. In addition, the safety net must be linked with an active labor market policy that gives an incentive to the worker to participate in the labor force and to the employer to hire, rather than having the one remain idle and the other shed labor. And this must be done without undermining the basic principles of the welfare state. This leads to the crucial question of how to redefine the political and social role of the state and combine it with a continued enlargement of the role of the market.

Finally, much of the restoration of growth and promotion of employment is about confidence. Indeed, the psychological climate is almost as important as the macroeconomic framework itself. Confidence requires belief in the stability, transparency, consistency, and just plain "good governance" injected into policies. Confidence also requires a consensus in society about the right direction to take. This is a key element in the ILO's message, but it is not only ideological. The involvement in the decisionmaking process of those who are affected by it tends to yield better results than otherwise in the long run, even though one might not be able to bring about immediate shock therapy for solving economic problems. In sum, the alleviation of unemployment can never be a mere technical issue, ignoring the dynamics of the political economy and the values underpinning it. □

Footnotes

[1] The Unemployment Convention, 1919 (No. 2).

[2] The complete texts of these standards can be found in *International Labour Conventions and Recommendations* (Geneva, International Labor Organization, 1985), second printing.

[3] See *The World Employment Programme: What it is, what it does* (Geneva, International Labor Organization, 1984).

[4] See *World Labour Report* (Geneva, International Labor Organization, 1994), p. 13; and *Patterns of employment growth under changing conditions of labour supply and demand*, Governing Body doc. GB.258iESP/1/4, 258th scss. (Geneva, International Labor Organization, November 1993), p. 7.

[5] See *Report of the Committee of Experts on the Application of Conventions and Recommendations*, Report II (Part 4A) (Geneva, International Labor Organization, 1994), p. 29.

[6] J. Michie and J. G. Smith, eds., *Unemployment in Europe* (London, Academic Press, 1994), p. 117.

[7] See *Human Development Report, 1993* (New York, United Nations Development Program, 1993), pp. 35–37.

[8] *World Economic Outlook* (Washington, International Monetary Fund, 1994), p. 19.

[9] Michie and Smith, *Unemployment in Europe*, p. 189.

[10] See, for example, *The Economist*, Feb. 26, 1994, pp. 74–75.

[11] Michie and Smith, *Unemployment in Europe*, p. 43.

[12] *Employment Outlook* (Paris, Organization for Economic Cooperation and Development, 1992).

[13] Michie and Smith, *Unemployment in Europe*, pp. 69–70.

[14] See *Employment Outlook*, 1992; and *Employment Outlook* (Paris, Organization for Economic Cooperation and Development, 1993).

[15] *The Economist*, Feb. 26, 1994.

[16] See *Labour market policies for the 1990s* (Paris, Organization for Economic Cooperation and Development, 1990).

[17] Michie and Smith, *Unemployment in Europe*, p. 125.

[18] See David Card, "Do minimum wages reduce employment? A case study of California, 1987–89," *Industrial and Labour Relations Review*, Oct. 1992, pp. 38–54; and

Lawrence F. Katz and Alan B. Krueger, *The effect of the minimum wage on the fast food industry*, Working Paper No. 298, Industrial Relations Section (Princeton, NJ, Princeton University, February 1992).

[19] C. Vimont, "La croissance de l'emploi salarié aux Etats-Unis" ["The Growth of Salaried Employment in the United States"], *Chroniques Economiques*, April 1994, pp. 127–41.

[20] For example, hourly labor costs in manufacturing in Germany in 1993 were almost $25 in U.S. currency, and in Japan, France, the United Kingdom, and the United States they were between $16 and $17, whereas they were around $5 in Taiwan and the Republic of Korea, $2.40 in Mexico, and less than $1 per hour in China and Thailand. Even if labor productivity evened out the differences among these pay rates somewhat, one might wonder whether a strategy on the part of an industrial country to compete in the area of labor-intensive manufacturing would prove very successful.

[21] *The Economist*, Apr. 2, 1994, p. 79.

[22] See *The challenges and ways forward into the 21st century* (Brussels, Commission of European Communities, 1993), p. 52.

Where are you publishing your research?

The *Monthly Labor Review* will consider for publication studies of the labor force, labor–management relations, business conditions, industry productivity, compensation, occupational safety and health, demographic trends, and other economic developments. Papers should be factual and analytical, not polemical in tone. Potential articles should be submitted to: Editor-in-Chief, *Monthly Labor Review*, Bureau of Labor Statistics, Washington, DC 20212-0001.