

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 *Guilendstern*, 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

