

Chapter VII

UNEMPLOYMENT

1. One of the major themes of the World Summit for Social Development was the problem of unemployment and the widespread achievement of productive employment. The attention devoted to these issues is warranted given that employment is the primary source of personal and family income for most people and a significant determinant of social cohesion, and the expansion of employment is a major contributor to economic growth.

2. Half a century ago, a feeling of optimism that unemployment could be minimized was emerging. The Charter of the United Nations mandated the right of individuals to productive employment, and many developed economies adopted policies and mandates to achieve full, or at least high, levels of employment. The centrally planned economies achieved full employment as the Government employed all citizens not otherwise employed who were willing and able to work. Stimulated in part by the removal of colonial ties, developing countries and international organizations developed policies and programmes designed to foster growth and employment.

3. Since the 1970s, the situation has changed. In the developed economies changes in the technology and organization of production and a slower rate of productivity and real output growth have made the achievement of low unemployment in a non-inflationary environment much more difficult than had been anticipated. Developed countries have found it difficult to formulate policies to effectively deal with both unemployment and inflation; they have also been hampered by a slowdown in productivity growth that has affected all developed economies. Inefficiencies in centrally planned economies led to stagnation in incomes. And while a few developing economies were able to achieve high levels of employment in the context of rapid growth and industrialization, most have struggled to find the appropriate mix of policies. Thus, throughout the world, solving the problem of unemployment appears more difficult today than it did 50 years ago.

4. All three types of economies have been undergoing substantial structural changes. This is clearest in the formerly centrally planned economies, now in the midst of a transition to market-based systems in which wages and employment are determined by market forces. Unemployment has risen and income inequality has widened as countries search for new institutional arrangements and policies. Many developing countries are also in the midst of transformations, as outward-oriented policies and the greater reliance on international markets for goods, services, capital and technology have subjected domestic labour markets to greater international pressures.

5. Meanwhile, awareness of the role of labour markets in determining patterns of employment, unemployment and real wages has grown. The function of labour markets is to balance supply and demand in a manner that promotes economic efficiency. Yet constraints—some-

times the result of actions by Governments, sometimes caused by private activities—often inhibit labour markets. Markets may also fail to reach potential participants because of high costs, geographical immobility or imperfect access to information. And the results of market activities may violate a society's concepts of equity, as policy makers confront the difficulty of devising policy instruments that address equity concerns while simultaneously preserving the structure of incentives needed to obtain efficient outcomes.

6. These issues have surfaced in the developed, developing and transition economies. In developed economies the apparently adverse impact of safety nets on incentives has led to policy initiatives designed to reduce the scope of protection available to unemployed and discouraged workers. In developing economies the incompleteness of labour markets in rural areas and the emergence of extensive informal economies has been widely noted. In transition economies the development of private sector labour markets has highlighted many of their structural characteristics.

7. At the same time that unemployment has emerged as a problem and the effectiveness of labour markets has emerged as a policy issue, employment has grown substantially. The re-emergence of unemployment as a focus of policy should not obscure the fact that the world economy continues to absorb the bulk of a rapidly rising global labour force, which is better educated, possesses greater skills and is more mobile than at any time in the past. Approaches to solving the problem of unemployment need to be formulated in the context of rapid changes in economic conditions and in the quantity and quality of labour.

A. EMPLOYMENT AND UNEMPLOYMENT IN THE DEVELOPING COUNTRIES

1. *The labour force and employment*

8. The International Labour Organization (ILO) estimated the world labour force at about 2.7 billion workers in 1995, of which 78 per cent resided in developing countries. As a result of both demographic factors and behavioural changes that affect participation rates, developing countries' share in the total world labour force is expected to continue to increase, reaching 81 per cent by 2010, or 2.8 billion workers (see table 7.1). Developing countries thus face an enormous challenge in creating employment opportunities for their citizens as some 47 million persons join the labour force each year in these countries. The average annual rate of growth of the labour force in developing countries is expected to slow from 2.2 per cent (over the period 1950-1995) to 1.9 per cent over the next 15 years, largely as a result of the dramatic decline in fertility rates in China and the decline in population growth in Latin America and the Caribbean. Labour force

TABLE 7.1. WORLD LABOUR FORCE, BY REGION AND INCOME GROUP, 1950, 1995 AND 2010

Income group or region	Number of workers (15-64) (millions)		Percentage of total		Average annual rate of growth (percentage)	
	1950	1995	1950	1995	1950-1995	1995-2010
World	1 183	2 742	100	100	1.89	1.59
Developed countries	248	408	21	15	1.11	0.40
Economies in transition	129	204	11	7	1.02	0.50
Developing countries	814	2 128	69	78	2.16	1.90
of which:						
Asia	654	1 621	55	59	2.04	1.66
China	317	729	27	27	.87	0.84
East Asia	22	39	2	1	1.28	1.25
Central-South Asia	211	562	18	20	2.20	2.35
Southeast Asia	85	232	7	8	2.26	2.04
West Asia	18	56	2	2	2.55	2.82
Africa	102	308	9	11	2.49	2.93
North Africa	13	47	1	2	2.90	2.98
Sub-Saharan Africa	89	261	8	10	2.42	2.92
Latin America and Caribbean	58	198	5	7	2.77	2.14
Memo:						
Developing countries excluding China	497	1 399	42	51	2.33	2.39

Source: ILO, *Bulletin of Labour Statistics 1996-1* (Geneva, International Labour Organization), pp. xviii-xxii.

growth is expected to accelerate in Africa, West Asia and Central and South Asia between 1995 and 2010.¹ Excluding China, labour force growth is projected to increase slightly over the next 15 years.

9. Changes in the labour force reflect changes in both demographic factors and participation rates. While fertility rates have been declining in much of the developing world, improved health conditions have allowed a greater number of people to reach working age. Labour force participation rates for men have remained relatively constant or even dropped, while female participation rates have increased and are projected to increase further in the near future. Data at the country level suggest that this phenomenon is spreading throughout the developing world, even in countries in which female participation in economic activities has not been recognized or encouraged.² As a result of this trend, the female share in developing countries' labour force is expected to reach 40 per cent by 2010. Among the developing regions, the female share in the adult labour force is highest in Africa and Asia, where women work in traditional activities such as agriculture (see table 7.2).

10. The age composition of the labour force has also changed, with participation rates by younger workers (aged 10-24 years), falling particularly for the youngest workers (aged 10-14 years). Thanks to increased access to schooling the participation rate of this age group is equal to or approaching zero in several developing countries, including Algeria, Barbados, Cuba, Chile, Jamaica, Kuwait, the Libyan Arab Jamahiriya, the Republic of Korea, Sri Lanka and the United Arab Emirates. Child labour persists in several countries, however, in some cases under adverse conditions (see below). Significant declines have also been registered within the 15- to 19-year-old group, although this decline has been modest in sub-Saharan Africa and in low-income countries. Relatively higher income levels and the existence of a generalized formal pension system seem to be positively correlated with the fall in participation rates by older workers in some countries.³ While participation rates by older workers (aged 65 and older) fell by 50 per cent in countries and areas such as Algeria, Argentina, Brazil, Chile, Cuba, Egypt, Hong Kong, Israel, Morocco, the Republic of Korea, Tunisia and Uruguay over the past 30 years, they remained relatively high in Bolivia, the Central African Republic, the Gambia, Ghana, Kenya, Haiti, Liberia, Myanmar, Nepal and the Niger, for example.

11. Labour markets in developing countries differ from labour markets in the developed economies. Despite the changes in the structure of production in the past several years (see figures 7.1 and 7.2), a significant share of the labour force in developing countries—about 60 per cent—is still engaged in agricultural activities. Although any aggregate figure inevitably conceals country-level differences, in general the share of the labour force employed in agriculture is usually higher in developing than in developed countries (see figure 7.3). Another salient feature of labour markets in developing countries is the low incidence of wage labour. Even if agriculture—a sector in which subsistence activities can be dominant—is excluded, the share of wage employment in services and industry is lower in developing than in developed countries (see figure 7.4). Finally, the family enterprise constitutes the most common form of production organization

not only in agriculture but also in the non-agricultural sector, explaining in part the relatively widespread use of non-wage employment practices in developing countries.

12. The nature of employment in developing countries is thus very different from that in developed countries. Although a “modern” or “organized” sector—made up of medium- and large-sized enterprises, the public sector, modern agriculture, professional services and other enterprises—does exist, it usually absorbs a small share of the total labour force. Most workers in developing countries are not affected by existing labour legislation, are not subject to minimum wage guarantees and do not enjoy the benefits of the protection offered by formal social security arrangements. Moreover, the nature of the unemployment problem in developing countries is different from that in developed countries. In contrast to developed countries, where urban open unemployment is the most serious problem, developing countries suffer primarily from underemployment and poverty, particularly in rural areas. This applies to countries independently of the degree of land concentration. Most rural Africans, for example, are small plot holders engaged in subsistence agriculture, who face poverty because of low returns and declines in productivity (see chap. VI). In Asia and Latin America, agricultural wage labour is more prevalent and is growing. Given the seasonal character of agricultural activities, however, many workers are unemployed or underemployed for long stretches of time. When employment in local labour markets is not found, households holding land can work their own plots. This is one reason why open unemployment is usually low in rural areas. Labour resources will not be employed productively, however, because the use of additional labour inputs in the presence of fixed land resources will eventually lead to a decline in the marginal product of labour and to lower incomes. For the landless peasant migration is an option, and many migrate to the cities, where they end up in the urban informal sector. Those who remain in the rural areas can engage in non-farm activities. In several countries, most notably China, off-farm work provides an important income complement (and sometimes the main source of income). At the regional level, the share of the rural labour force primarily employed in non-farm activities ranges from 19 per cent in Africa to 36 per cent in Asia and 47 per cent in Latin America.⁴

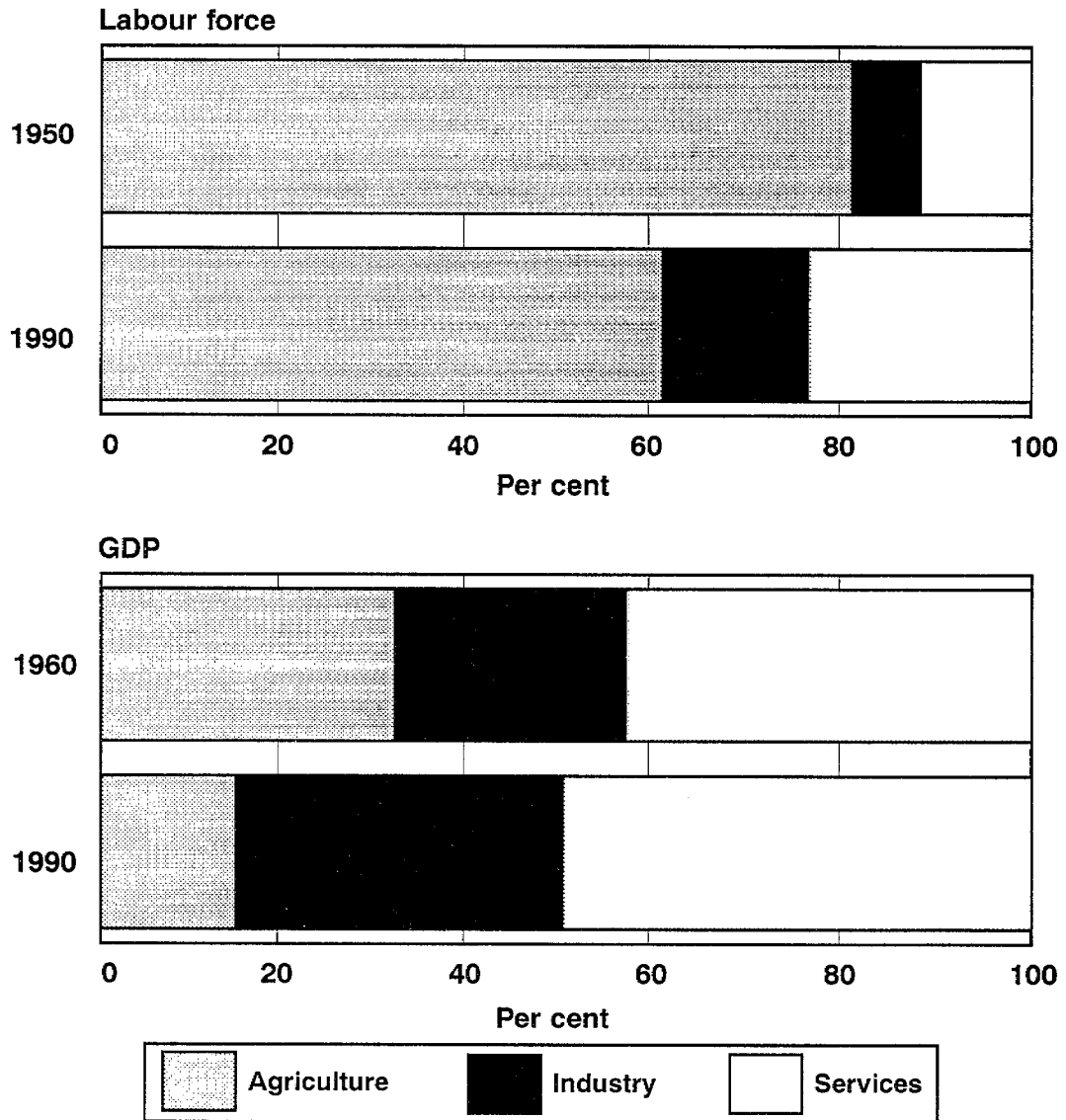
13. Economic theory has traditionally characterized labour markets in developing countries as being segmented and with limited mobility across segments. Labour markets have been perceived as exhibiting rigidities—as a result of prevailing institutional arrangements and the massive presence of the state as an employer, which prevent the efficient allocation of labour resources and greater labour absorption. This traditional view has evolved. Given the above characteristics of labour markets in developing countries, it is now suggested that rigidities may affect only some of its segments, particularly the urban formal sector. But even this statement may require some qualification as will be discussed in the section on structural reforms presented below.⁵ Many labour market segments exist in these countries,⁶ and the specific characteristics of rural and urban labour markets (both the formal and informal sub-segments) imply that they may operate in different ways, although links between and some mobility across the different segments exist.

TABLE 7.2. GENDER COMPOSITION OF LABOUR FORCE BY REGION AND INCOME GROUPS, 1950, 1995 AND 2010
(Percentage)

Income group or region	1950		1995		2010	
	Male	Female	Male	Female	Male	Female
World	65	35	60	40	59	41
Developed countries	70	30	57	43	55	45
Economies in transition	54	46	53	47	53	47
Developing countries	66	34	61	39	60	40
of which:						
Asia	65	35	60	40	60	40
China	60	40	55	45	55	45
East Asia	68	32	58	42	56	44
Central South Asia	72	28	68	32	66	35
Southeast Asia	64	36	57	43	56	44
West Asia	68	32	71	29	67	33
Africa	62	38	60	40	59	41
North Africa	94	6	71	29	66	34
Sub-Saharan Africa	57	43	58	42	57	43
Latin America and Caribbean	82	18	67	33	64	36

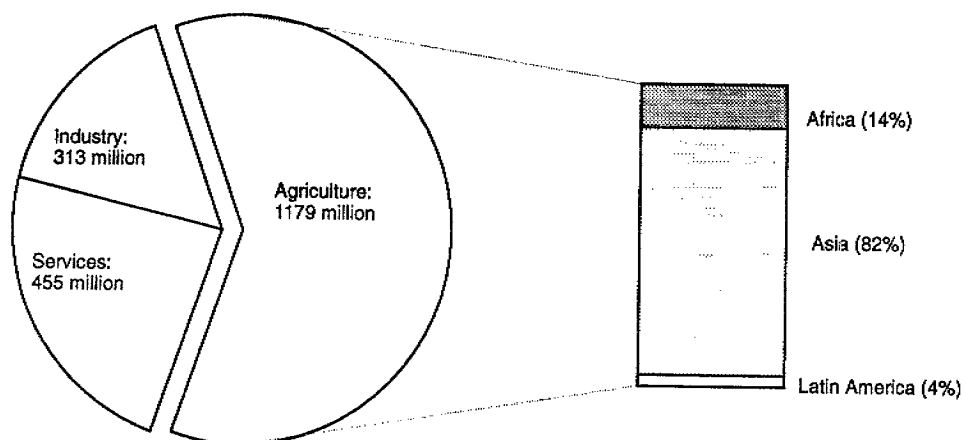
Source: ILO, *Bulletin of Labour Statistics 1996-1* (Geneva, International Labour Organization), pp. xviii-xxii.

Figure 7.1. Labour force and GDP of the developing countries, by economic activity



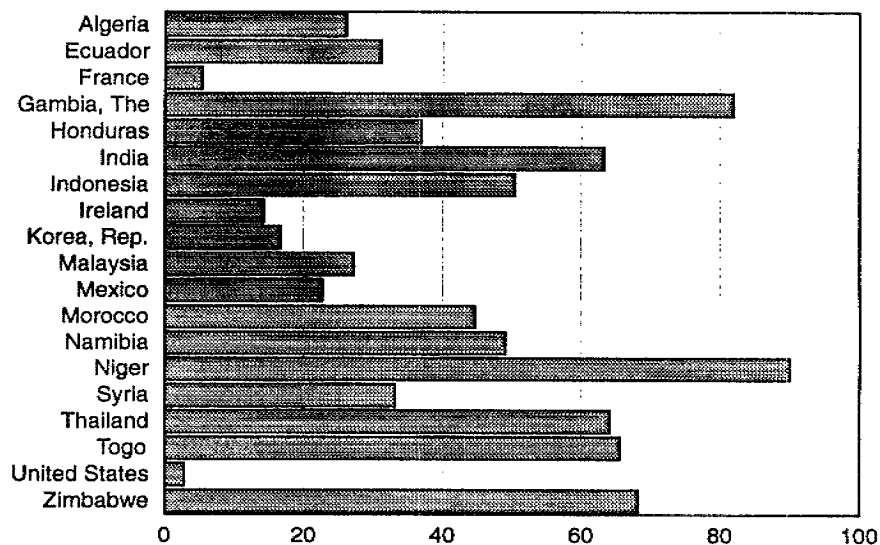
Source: ILO and UNCTAD

Figure 7.2. Distribution of the labour force in the developing countries, by sector, 1990



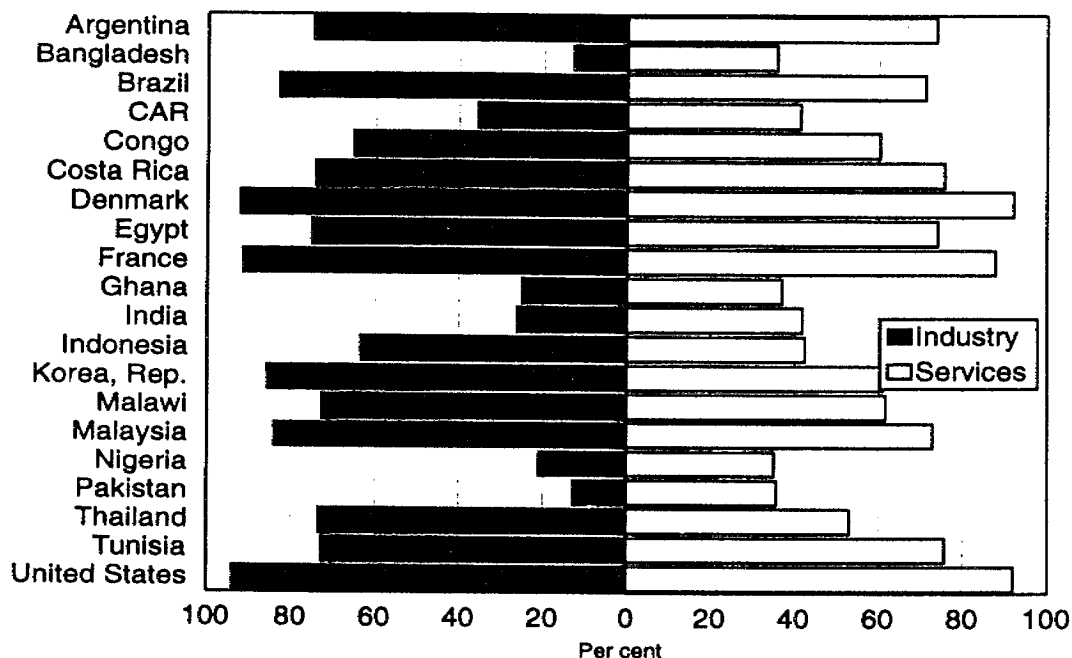
Source: E. Denti and E. Ruhumuliza, "Evolution de la population active de 1950 a 1995 et previsions pour l'an 2010", *Bulletin of Labour Statistics*, 1996-1 (ILO, Geneva 1996).

Figure 7.3. Share of the workforce in agriculture in selected countries, early 1990s (Percentage)



Source: D. Filmer, *Estimating the world at work*, World Bank Policy Research Working Paper No. 1488 (July 1995).

Figure 7.4. Share of wage employment in industry and services in selected countries, late 1980–early 1990s
(Percentage)



Source: D. Filmer, *Estimating the world at work*, World Bank Policy Research Working Paper No. 1488 (July 1995).

14. In agricultural labour markets, for instance, various arrangements are used, including sharecropping, permanent or temporary contracts and “spot” markets for daily or casual labourers. Some of these arrangements affect the allocation of the rural labour force whether or not workers hold a plot of land. Workers may participate in more than one segment of the rural labour market. Small farm households, for example, are a source of both supply of and demand for labour.⁷ This can be explained in part by the seasonal character of agriculture, by the size of the plot and by the number of household members. Small households occupying relatively large plots tend to hire labour while large households on smaller plots tend to supply labour locally. Participation in more than one segment of the labour market also reflects the survival strategies of households in the face of possible crop failure and the absence of insurance markets. For hired labour, employment and wage risk is significant. Given the household survival strategy, some of its members may be sent to work as permanent workers (holding long-term “contracts”), while others may be employed as daily labourers.⁸

15. Mobility between the rural and urban labour markets also exists. The rural labour force has traditionally been a source of labour supply to urban markets. But the flow also takes place in the opposite direction, from cities

to the farm. In Latin America, for example, the expulsion of resident workers from the farms, their relocation in towns and the increase in hiring of temporary workers led to a process of urbanization of the agricultural labour force, which now supplies the rural market. Additionally, remittances from urban workers to family members in rural areas may also have an impact on the functioning of rural markets by affecting the supply of labour in these areas. The temporary nature of agricultural work implies that the temporary agricultural workers living in the cities also participate in the urban labour market. This has contributed to greater integration between the two markets in Latin America and, consequently, a narrowing of the gap between agricultural and non-agricultural wages in some countries in the region.⁹

16. Within the urban labour market there are links between the informal and formal sectors. The deterioration of real wages in the formal sectors of some developing countries during the 1980s led some workers to participate in both markets. The volatile size of the informal sector, which expands with the deterioration of economic conditions and contracts during periods of prosperity, may be indicative of some integration between the sectors.

17. The generation of productive employment requires economic growth. In developing countries eco-

economic growth has been determined by the domestic policies adopted by their Governments and by the severity of the exogenous shocks to which these economies have been exposed. East and South-East Asia were able to recover quickly from the depressed economic conditions of the early 1980s; Africa and Latin America, which faced larger macroeconomic imbalances, a severe external debt crisis and structural constraints, have taken a longer time to recover. In sub-Saharan Africa, despite acceleration in GDP growth in 1995 and 1996, economic recovery is still to be consolidated. In Latin America, painful austerity measures recently adopted to regain control over external accounts have had a negative impact on output and employment.¹⁰ In China, where policies supporting the development of the non-state sector were adopted, employment creation has been impressive, with about 90 per cent of the non-farm employment created between 1991 and 1994 originating in the non-state sector.

18. Employment-related data are notoriously unreliable and scarce, making international comparisons difficult (see box 7.1). Yet if carefully interpreted these data can provide some indication of current trends in employment creation in developing countries. The data presented in table 7.3 reveal a faster rate of employment creation in several developing countries in the early 1990s, when growth rates rose. In Africa, however, employment generation seems to have declined during the late 1980s and early 1990s, reflecting poor economic performance during the period. However, employment data for most African countries refer to wage or salaried employment and therefore exclude employers, self-employed or own-account workers and unpaid family workers, among others. These data cannot, therefore, be compared with data from countries in other regions. Yet the African data do reveal the decline in the relative importance of the formal sector as a source of employment growth—a pattern exhibited in other developing countries as well.

19. Although economic growth is a prerequisite of employment generation, GDP growth per se does not imply that jobs are being created rapidly enough to absorb new entrants to the labour force and to reduce existing unemployment levels, nor does GDP growth ensure that the jobs created are compatible with the quality and quantity of labour skills available and can provide workers with a minimum acceptable standard of living. In fact, some studies have suggested that employment growth does not follow the same pattern as GDP growth and that the labour intensity of GDP growth in developing countries has been declining.¹¹ This issue remains unresolved. A recent ILO report found no evidence of “jobless” growth in developing economies, although it did find evidence of negative growth of labour productivity in some of these countries.¹²

2. A regional perspective on unemployment

20. Estimates of open unemployment in developing countries, presented in table 7.4, reveal differences across countries. In general, unemployment is high in developing countries. Given the absence of unemployment insurance and formal social security programmes in most of these countries unemployment has a direct impact on poverty levels and represents a double burden for households and informal safety nets in that income is forgone and must be provided.

TABLE 7.3. EMPLOYMENT INDEX IN SELECTED DEVELOPING COUNTRIES, 1987 AND 1992-1994

Country or area	1987	1992-1994
Asia		
Bahrain ^a	85	109
China	117	136
Jordan ^b	140	217
Hong Kong ^c	106	115
India ^d	108	..
Indonesia	122	135
Israel ^e	104	139
Malaysia	114	141
Pakistan	111	128
Philippines	112	135
Republic of Korea	114	138
Singapore	105	145
Sri Lanka ^e	55	66
Thailand ^f	121	136
Latin America		
Colombia	119	167
Costa Rica	..	169
Chile ^c	108	134
Guatemala	111	135
Jamaica	116	124
Mexico ^{c,e}	106	150
Nicaragua ^e	160	110
Panama	121	149
Uruguay ^g	117	124
Venezuela	116	143
Africa		
Algeria ^h	119	125
Benin ^e	106	76
Botswana ^e	150	227
Burundi ^{e,h}	101	91
Central African Republic ^{a,i}	105	77
Côte d'Ivoire ^{h,j}	91	86
Ghana ^{e,h}	141	66
Kenya ^{e,h}	121	138
Niger ^{e,h}	109	94
Senegal ^{h,k}	74	112
South Africa ^e	101	96
Togo	142	139
Zimbabwe ^e	103	120

Source: *Yearbook of Labour Statistics* (Geneva, International Labour Office, various issues).

Note: Data for Benin, Niger, Togo, Guatemala, Mexico, Nicaragua, and Bahrain are based on social insurance statistics. Data for Botswana, Ghana, Kenya, Senegal, Zimbabwe, South Africa and India are based on establishment surveys. Data for China reflect official estimates. Data for all remaining countries are based on labour force or household sample surveys.

Index: 1982 = 100.

^aPrivate sector.

^bPersons engaged in non-agricultural activities.

^c1985 = 100.

^dNon-agricultural.

^eEmployees.

^f1983 = 100.

^gUrban areas.

^h1991.

ⁱ1990.

^jModern sector.

^k1986 = 100.

Box 7.1 DEFINING AND MEASURING UNEMPLOYMENT

The internationally accepted definition of involuntary unemployment, formulated by the International Labour Organization (ILO), considers an individual to be unemployed if he or she is currently without employment, is actively seeking employment and is available for employment within some time period mutually acceptable to both the prospective employee and a prospective employer. Governments use three primary methods to measure unemployment, with some countries basing official estimates of unemployment on more than one source of information.^a

Many countries use sample surveys to gather information on the employment status of individuals. Labour force surveys yield data on the number of unemployed workers and the total labour force, thus yielding information on both components of the unemployment rate. Well-designed surveys are generally thought to provide better coverage of employment and unemployment than other methods, but they are expensive to design and carry out. Surveys that preserve respondents' anonymity are likely to be most successful in measuring employment and unemployment in the informal sector, where many workers prefer not to be identified.

Estimates of unemployment are also derived from data on people registered with agencies dispensing unemployment insurance. In some countries trade union benefit funds are also used as a source of information on the unemployed. Since these sources count only people who are eligible to receive compensation the estimates are not as representative of the population as labour force surveys.

A third method is to calculate the number of unemployed by looking at data on job applicants who register with employment offices. As with data derived from unemployment compensation rolls, the representativeness of this sample is questionable. In countries in which employment offices are more effective in matching job seekers with jobs a higher portion of the unemployed are likely to register. Moreover, employment offices are likely to reach a higher proportion of the unemployed in cities than in rural areas, so that agricultural unemployment is more likely to be undercounted than manufacturing unemployment.^b

The different methods of calculating unemployment can yield different results. For the spring quarter of 1996, for example, the labour force survey showed a rise in total unemployment in the United Kingdom of Great Britain and Northern Ireland of 11,000, while an estimate derived from unemployment insurance data indicated a decline in unemployment of 46,000 over the same period. The difference was explained by the fact that some unemployed workers no longer claimed

benefits because their eligibility had terminated or because they had stopped looking for jobs.^c In economies in transition, data on unemployment levels collected from labour force surveys can exceed measures of unemployment estimated from data collected by employment offices by a factor of 3 or more.

Differences in the effectiveness of data collection methods suggest that cross-country comparisons of unemployment rates should be undertaken with caution. Changes in the effectiveness of data collection and processing and changes in conditions of eligibility for unemployment compensation or access to placement facilities may also affect the comparability over time of data from a single country.

Data on unemployment are also affected by definitional issues. Part-time employment, for example, even if brief and involuntary, is counted as full-time employment. Discouraged workers, who are no longer actively searching for employment, are not counted as unemployed or included in estimates of a country's labour force. And people in education or training programmes are excluded from the labour force because they are not available for employment. In many instances, however, participation in a training programme reflects a prior unsuccessful job search and a decision to obtain new or upgraded skills. Some governmental statistical agencies collect data on involuntary part-time workers and discouraged workers and break down the unemployed by duration of unemployment.^d In addition, some private researchers have emphasized the existence of disguised unemployment, which includes people working at jobs for which they are overqualified.^e

^a*Bulletin of Labour Statistics*, 1996-1, (Geneva, International Labour Office, 1996), pp. 39-40.

^b*World Economic and Social Survey 1994* (United Nations publication, Sales No. E.94.II.C.1), box VI.1, "Principal methods for collecting unemployment and vacancy statistics", pp. 159-160.

^c*World Economic and Social Survey 1994* . . . , box VI.3, "Measuring open unemployment in developing countries", p. 180. "More jobs, higher pay", *The Economist*, 14 September 1996; *World Labour Report 1995*, (Geneva, International Labour Office, 1995), chap. 1; "Controversies in Labour Statistics" (Geneva, International Labour Office, 1995), pp. 11-30.

^dConstance Sorrento, "International unemployment indicators, 1983-1993", *Monthly Labour Review*, vol. 118, No. 8 (August 1995), pp. 31-50; John E. Breggar and Steven E. Haugen, "BLS introduces new range of alternative unemployment measures", *Monthly Labour Review*, vol. 118, No. 10 (October 1995), pp. 19-26.

^eJohn Eatwell, "Disguised unemployment: the G7 experience", *UNCTAD Review* (1995), pp. 67-90.

21. East and South-East Asian economies are currently experiencing relatively stable and low rates of unemployment. In Hong Kong, the Republic of Korea and Singapore, for example, unemployment is much lower than it was 10 or 15 years ago. In fact, rapid GDP growth in South-East Asian countries has produced near full-employment and rising real wages. As a result, demand for

foreign labour has risen in some Asian countries which have also become a source of foreign direct investment within the region as production is shifted into neighbouring countries with more abundant supplies of lower-cost labour.¹³

22. The unemployment situation is less clear in South Asia. The adoption of structural reforms in India, including the abandonment of industrial policies that offered

incentives for capital-intensive industries, led to an acceleration in employment creation, which may have reduced unemployment in urban areas.¹⁴ In Pakistan, unemployment has increased in part as a consequence of reduced migration because of economic changes in the traditional labour-receiving countries of West Asia. In Sri Lanka unemployment remains high. In China urban unemployment has increased slightly in recent years as a result of the ongoing process of restructuring the state sector (see below).

23. In the Middle East and North Africa, unemployment has been tied to the economics of oil, the health of public finances and the possibilities of migration.¹⁵ With the decline in oil prices in the mid-1980s, Governments in the region were forced to adopt tight fiscal policies and reduce spending. Given the dominance of the public sector in total employment creation, reductions in public expenditure implied shrinking job opportunities. In the labour-sending countries (Egypt, Jordan and Yemen) difficulties were compounded by tighter migration policies in receiving countries and by the return of migrants in the early 1990s as a result of the Gulf war. The unemployment rate in Yemen was estimated at 30 per cent in 1995. In Jordan, contrary to expectations, the level of unemployment declined somewhat in 1992 following the return of migrants, who invested their savings in the domestic economy (mainly in construction and in small businesses), thus increasing the demand for labour. However, the unemployment rate in Jordan remains high (about 15 per cent in 1995). Unemployment is also high in Egypt (about 15 per cent in 1995) and is reported to be increasing in some of the labour-receiving Gulf Cooperation Council countries as well.¹⁶ Obviously, there are exceptions to this general trend. In Israel unemployment has risen as a result of the influx of immigrants from Ethiopia and the former Soviet Union. Tunisia's economic diversification and increasing private sector participation in the economy have also placed the country outside the general description given above. Unemployment also remains high in Tunisia: it was estimated at 16 per cent in 1993.¹⁷

24. Unemployment declined in Latin America during the first half of the 1990s, as the region partially recovered from the contraction that took place in the local labour markets as a consequence of economic developments and policies adopted in the 1980s. As in other developing regions, trends in unemployment seem to be linked to the timing of reforms. Countries that reformed early now seem to face more comfortable labour market conditions than do countries that reformed later. Unemployment remains high in several countries in the region, however (see table 7.4), and some of the earlier gains were lost in 1995, suggesting that macroeconomic discipline has to be constantly maintained in order to minimize eventual employment and output losses brought about by external shocks. In Mexico and Argentina, for example, renewed austerity efforts in view of the temporary interruption of financial flows to the region by the end of 1994/early 1995 led to a dramatic increase in unemployment.¹⁸ Unemployment data for sub-Saharan Africa are scanty but the evidence seems to suggest that persistent economic stagnation, import constraints and restructuring of the public sector caused urban unemployment in the region to remain severe in the first half of the 1990s. The unemployment rate in Yaoundé, Cameroon, rose from 7 per cent in 1983 to about 25 per cent in 1993.

In South Africa urban unemployment was estimated at 33 per cent in 1995, while unemployment rates in the capital cities of Burkina Faso, Guinea and Mali were reported to be above 16 per cent in 1991-1992.¹⁹

25. Distressful as they are, these data understate the problem of unemployment in developing countries. Unemployment data refer only to active participants in the labour force, people either working or searching for work, and thus exclude discouraged workers, whose numbers tend to grow as unemployment increases. Official statistics on urban unemployment in China, for example, represent only the lower boundary of unemployment estimates, because they do not include unemployed migrants, who do not have official urban residence registration.

26. Most unemployment rates refer to open urban unemployment and do not include either rural unemployment or the overall level of underemployment in the economy. Moreover, because the percentage of urban underemployed (that is, people working fewer hours than they are willing to) can be substantial, unemployment is actually much worse than these figures suggest. In greater Sao Paulo, Brazil, for example, open unemployment was estimated at 8.9 per cent in 1994. But adding "visible" underemployment of 5.4 per cent to this figure yields a rate of total unemployment of more than 14 per cent. Adding underemployment of 12.3 per cent to the 16.4 per cent rate of open unemployment in urban areas in Argentina yields a total rate of unemployment there of 28.7 per cent by the end of 1995. Urban underemployment was estimated at more than 30 per cent in the Philippines in the early 1990s and at 42 per cent in Yaoundé, Cameroon, in 1993.²⁰

27. Unemployment rates also fail to describe the circumstances of those working for meagre earnings and long hours in the urban informal sector. Good data on the informal sector are difficult to obtain. The sector itself is not easily defined and extremely fluid. About 60 per cent of the urban labour force in sub-Saharan Africa, 30 per cent in Latin America, 50 to 75 per cent in some South Asian countries and about 10 to 20 per cent in the newly industrialized countries in East and South-East Asia is estimated to work in the informal sector.²¹

3. *Youth and female unemployment*

28. Youth unemployment is a serious problem in several developing countries, where workers below the age of 24 constitute the bulk of the unemployed (table 7.5). The relative share of people seeking their first job, the majority of whom are young workers and women, within the total unemployed population has increased over the past decade (figure 7.5). The data suggest that economies in many regions, particularly in Africa, have not been able to absorb new labour market entrants.

29. Unemployment also disproportionately affects the educated (table 7.6). It could be argued that higher unemployment among the educated workers reflects their preferences to remain unemployed rather than accept lower earnings or perform less socially acceptable jobs. Nevertheless, the economic restructuring taking place in most developing countries has contributed to reducing demand for educated labour, particularly in countries in which the public sector used to represent the main source of demand for such skills (see below).

TABLE 7.4. OPEN UNEMPLOYMENT IN SELECTED DEVELOPING COUNTRIES, 1980, 1985, 1990 AND 1994-1995
(Percentage of labour force)

Country or area	1980	1985	1990	1994-95
Asia				
China ^a	4.9	1.8	2.5	2.8
Hong Kong Province of China	4.3	3.2	1.3	1.9
Republic of Korea	5.2	4.0	2.4	2.4
Philippines	4.8	..	8.1	9.5
Thailand	0.8	..	3.9 ^b	3.6 ^c
Israel	6.0	6.7	9.6	7.8
Pakistan	..	3.7	3.1	4.7
Singapore	3.0	4.1	1.7	2.6
Sri Lanka	..	..	14.4	13.6
Africa				
Algeria	..	..	19.7	23.8 ^c
Egypt	5.2	..	8.6	9.0 ^c
Morocco	..	..	15.4	16.0 ^c
Niger	38.4 ^d	56.3	48.6 ^b	..
Latin America ^a				
Argentina	2.3	5.3	7.5	18.6
Bolivia	5.8	18.2	9.5	5.8
Brazil ^e	6.3	5.3	4.3	4.7
Chile ^f	11.8	17.2	6.5	5.6
Colombia ^g	9.7	14.1	10.5	8.6
El Salvador	..	..	10.0	7.5
Guatemala ^h	..	12.0	6.5	4.3
Mexico	4.5	4.8	2.7	6.4
Nicaragua ^h	..	..	11.1	20.2
Panama	10.4	15.6	16.8	14.3
Peru ⁱ	7.1	10.1	8.3	8.2
Uruguay ⁱ	7.4	13.1	9.3	10.7
Venezuela	6.6	14.3	11.0	10.3

Sources: ECLAC, Balance preliminar de la economía de América Latina y el Caribe 1995 (Santiago, ECLAC, December 1995) and International Labour Office, Yearbook of Labour Statistics (Geneva, ILO, various issues).

Note: Data for Pakistan, Niger and Guatemala are based on employment office statistics. Data for China and Nicaragua are official estimates. All others are based on labour force or household sample surveys.

- ^a Urban areas only.
- ^b 1989
- ^c 1992
- ^d 1992
- ^e Metropolitan areas of Rio de Janeiro, Sao Paulo, Belo Horizonte, Porto Alegre, Salvador and Recife.
- ^f Santiago metropolitan area.
- ^g Bogotá, Barranquilla, Medellin, Cali, Bucaramanga, Manizales and Pasto.
- ^h Country total.
- ⁱ Metropolitan Lima.
- ⁱ Montevideo.

TABLE 7.5. MALE YOUTH UNEMPLOYMENT IN SELECTED DEVELOPING COUNTRIES
(Percentage of total male unemployment)

Country or area (year of data)	Age		
	15-19	20-24	15-24
Algeria (1992)	28	36	64
Bahrain (1994) ^a	40	34	74
Burkina Faso (1992) ^b	3 ^c	28	31
Central African Republic (1993) ^d	4 ^c	24	28
Chile (1994)	12	27	39
Colombia (1994) ^e	20	40 ^f	60 ^g
Costa Rica (1994)	26	21	47
Ecuador (1994) ^h	20	29	49
El Salvador (1994) ^h	18	22	40
Ethiopia (1993)	22	33	55
Hong Kong (1994)	1	19	30
Indonesia (1992)	22	44	66
Mauritius (1994)	2 ⁱ	52 ^j	54
Mexico (1993)	26	24	50
Nicaragua (1991)	13	16	29
Pakistan (1993)	24	20	44
Panama (1993) ^k	27	32	59
Philippines (1994)	19	27	46
Republic of Korea (1994)	6	22	28
Singapore (1994)	5	22	27
Trinidad and Tobago (1993)	15	21	36
Uruguay (1992) ^h	41	21	62
Venezuela (1993)	..	..	45

Source: Yearbook of Labour Statistics 1995 (Geneva, International Labour Office, 1995).

Note: Data for Bahrain, Burkina Faso, the Central African Republic, Ethiopia and Mauritius are based on employment office statistics. Data for Nicaragua are based on official estimates. All others are based on labour force or household sample surveys.

^aPrivate sector only.

^bFour employment offices.

^cAge 0-19.

^dBangui.

^eSeven main cities in the country.

^fAge 20-29.

^gAge 15-29.

^hUrban areas only.

ⁱAge 15-17.

^jAge 10-24.

^kExcluding unemployed not previously employed.

30. The lack of employment opportunities among the highest-skilled labour and educated professionals may push them to leave the country in search of work abroad, thus leading to the phenomenon known as the "brain drain". The Philippines is estimated to have lost more than 12 per cent of trained professionals, and the Republic of Korea about 10 per cent, during the 1970s. About 500,000 highly educated professionals (mostly engineers and doctors) left India for the United States between 1972 and 1985. Ninety per cent of the newly graduated medical doctors have left Zimbabwe since 1980. In several developing countries, graduate students sent abroad on government scholarships never return because of adverse working conditions and limited job openings. The brain drain indicates a mismatch between demand for and supply of professionals and may suggest that fewer

fiscal resources should be devoted to tertiary education. Although expatriate professionals remit part of their incomes, the cost of their education is not generally recouped, and their emigration represents a loss to their country of origin.²²

31. Unemployment is usually higher among women than among men in developing countries or areas; exceptions do exist, as in Algeria, Hong Kong and the Republic of Korea (see table 7.7). Although female participation rates increased in the last decade, many new entrants were unable to find jobs. Women usually have different educational backgrounds from men. They have often fewer skills and lower educational attainment, which makes it more difficult for them to find employment. In some countries economic reforms negatively affected the supply of jobs available for women, particularly in the public sector. In other countries, however, women enjoyed greater employment opportunities in labour-intensive manufacturing, mainly in export processing zones (see box 7.2).

32. Formal employment openings are scarcer for women than for men. Lack of opportunities and other obstacles to wage employment have led women to seek employment in the informal sector in several countries.²³ Even in countries where firms are not averse to female participation in the labour market, they may be reluctant to hire female workers because of the potentially higher costs associated with maternity leave and because of possible career interruptions by women with family responsibilities (discrimination against women is discussed in chapter VIII).

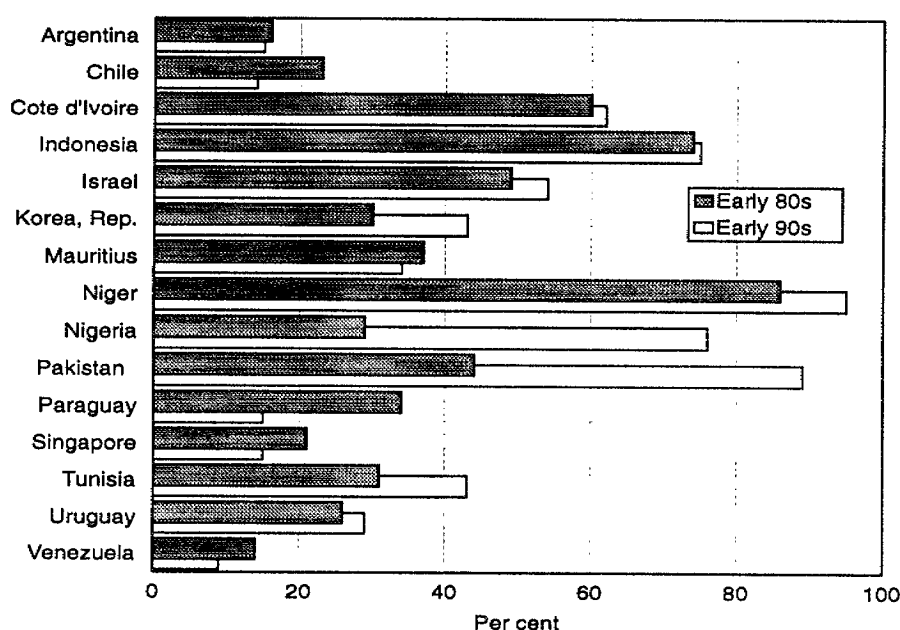
TABLE 7.6. UNEMPLOYMENT, BY LEVEL OF EDUCATION, SELECTED DEVELOPING COUNTRIES, 1989-1991
(Percentage)

Country or area	None	Level of education		
		Primary	Secondary	Tertiary
Africa				
Algeria	9	27	29	..
Côte d'Ivoire	1	3	26	15
Morocco	4	17	26	23
Tunisia	11	20	17	5
Cameroon ^a	7	24	27	31
Latin America				
Colombia	8	8	12	8
Costa Rica	5	6	7	3
Guatemala	1	2	6	2
Mexico	3	3	3	2
Uruguay	3	6	11	8
Venezuela	6	9	10	7
Asia				
Hong Kong	2	2	2	2
Indonesia	0	1	8	8
Israel	9	11	12	6
Philippines	5	6	11	13
Republic of Korea	..	1	3	4
Singapore	2	3	1	2
Syrian Arab Republic	3	7	8	8

Source: World Labour Report 1995 (Geneva, International Labour Office, 1995).

^a 1993.

Figure 7.5. Percentage of the unemployed seeking their first job, selected developing countries, early 1980s–early 1990s



Source: ILO, *Yearbook of Labour Statistics* (Geneva, ILO, various issues).

4. Child labour

33. There is wide media exposure of and international public outrage over children working as prostitutes, slaving away at carpetmaking or begging on the streets. Much less attention is given to the silent army of very young workers engaged in agricultural activities, housework, family business or other forms of work in many instances detrimental to their development.

34. Childhood needs to be protected; the lack of a developmentally appropriate physical and emotional environment can have lifelong negative implications. Article 32 of the Convention on the Rights of the Child (General Assembly resolution 44/25, annex), which has been ratified by all but six countries, states that a child has the right "to be protected from economic exploitation and from performing any work that is likely to be hazardous or to interfere with the child's education, or to be harmful to the child's health or physical, mental, spiritual, moral or social development" and commits State parties to take "legislative, administrative, social and educational measures" to implement this right. Countries are expected to adopt and implement laws on minimum working age, working hours, and working conditions. This may not be enough however.

35. Child labour is the outcome of poverty and ignorance. Poor families depend on their children not only for the income they generate but also to better manage the

income risk they face (from job loss or crop failure, for example). The lower the household income level, the more threatening the interruption of child labour is for household survival. In poor households child labour functions as an insurance strategy; its forced abolition is likely to fail as long as poverty persists.²⁴ But eradication of poverty is a long-term process and more forceful and effective measures to end detrimental child labour are urgently required.

36. The poor quality of the education system contributes to the existence of child labour. A crumbling and inadequate education system does not provide incentives for families to send their children to school; the benefits in terms of better employment opportunities in the future are not perceived to exceed the efforts and opportunity costs involved. Even if wide-scale poverty is not eradicated, more effective efforts should be made towards eliminating abusive work practices involving children. In addition, safety nets should be devised to protect poor households subject to income risk. Improvements in school systems are also required. The importance of education should not be minimized; in countries in which child labour has been eliminated, compulsory education played a significant role. A policy of universal education should be adopted as an instrument of child labour reform, and child labour laws should incorporate the goal of universal education.²⁵

TABLE 7.7. MALE AND FEMALE UNEMPLOYMENT RATES IN SELECTED DEVELOPING COUNTRIES (Percentage)

Country or area (year of data)	Male	Female
Africa		
Algeria (1992)	24.2	20.3
Egypt (1992)	6.4	17.0
Morocco ^a (1992)	13.0	25.3
Latin America		
Argentina ^b (1993)	8.5	12.7
Bolivia ^a (1992)	5.4	5.5
Costa Rica (1994)	3.5	5.8
Chile (1994)	5.4	6.8
Ecuador ^a (1994)	5.8	9.3
Jamaica (1993)	9.7	22.9
Mexico ^c (1993)	2.1	3.1
Panama (1994)	10.5	20.1
Uruguay ^a (1993)	6.5	10.9
Asia		
China ^a (1994)	0.8	1.1
Hong Kong (1994)	2.1	1.7
Israel (1994)	6.2	10.0
Pakistan (1993)	3.8	10.3
Philippines (1994)	7.9	9.4
Republic of Korea (1994)	2.7	1.9
Sri Lanka ^d (1994)	9.9	20.8

Source: *Yearbook of Labour Statistics 1995* (Geneva, International Labour Office, 1995).

Note: Data are based on labour force and household sample surveys except for China whose data are based on official estimates.

^a Urban areas only.

^b Greater Buenos Aires only.

^c Metropolitan areas of Mexico City, Monterrey and Guadalajara.

^d Excluding Northern and Eastern provinces.

5. Economic reforms and employment creation

37. The process of adjustment and restructuring that followed the economic crisis of the early 1980s has not been completed. Several developing countries are still engaged in serious adjustment and stabilization efforts in an attempt to free their economies from unsustainable imbalances and the rigidities of the past and to integrate themselves more fully into the global economy.²⁶ Others have only recently initiated this process or are revising and renewing their adjustment strategies in view of the external shocks their economies have experienced recently. Despite their differences in terms of level of development, productive structure and political conditions, the reforms being adopted by developing countries share some common elements and have produced similar outcomes—at least temporarily—in terms of their impact on local labour markets.

38. The need to improve the efficiency of the governmental apparatus, balance the fiscal budget and promote the role of the private sector as the engine of growth in the economy has led to civil service reforms and a significant withdrawal of the public sector from the production and supply of goods and services. This has had negative consequences for employment generation by the formal sector, particularly when the State through either its administrative functions or its participation in productive activities is a major employer. A wide range of reform approaches have been adopted, including removal of

“ghost” employees, elimination of officially sanctioned posts not currently filled, retrenchment of temporary or seasonal workers, enforcement of retirement age, elimination of guaranteed entry for graduates, suspension of automatic advancement, incentive-induced “voluntary” retirement, wage freezes and dismissal of civil servants. Typically, Governments first adopted reforms with the least negative political impact. Initially, Governments sought to reduce the level of wage expenditure without cutting employment. Consequently, while public servant real wages plummeted, public sector employment continued to grow. Action on employment levels began in the second half of the 1980s. In sub-Saharan Africa public sector reforms had a substantial negative impact on the growth of formal employment, not so much because public employment was cut but rather because formal employment was not growing at the same pace as an expanding, usually educated and young urban labour force. Recruitment freezes were imposed in Benin, the Gambia, Mauritania, Sierra Leone, Somalia and the United Republic of Tanzania. Automatic hiring for school graduates was abolished in Benin, the Central African Republic, the Congo, Guinea, Mali, Rwanda, Somalia and the Sudan.²⁷ This helps to understand why unemployment among the educated youth has become a problem in these countries. Public sector employment cuts were significant in Ghana, where at least 45,000 civil servants were dismissed in the second half of the 1980s.²⁸

39. Similar trends have taken place in North Africa and in the oil-exporting countries of West Asia since the late 1980s as continuous expansion of public hiring through increased public indebtedness became unsustainable. Currently, these countries are facing the challenge of creating employment outside the public sector but within the domestic economy; in North Africa the migration escape valve—and the foreign exchange it generates—is closing. Cuts in public expenditures in these countries have also affected the private sector, which is overly dependent on the public sector for generous service contracts. In Latin America public employment continued to decline in the early 1990s, with the sector losing its relative importance in Bolivia, Colombia, Panama, Uruguay and Venezuela. More than 200,000 government workers lost their jobs in Peru between 1990 and 1993. The privatization wave that accompanied the restructuring of the public sector has also taken a toll on formal employment in these economies. Similar developments took place in Malaysia, where a partial freeze on recruitment caused public employment sector growth at a much slower pace in the 1980s than in the 1970s. Privatization of state-owned enterprises in Malaysia was not negatively affected because of a non-retrenchment condition imposed by the Government during the first five years after privatization.²⁹

40. In China the restructuring of state enterprises has contributed to increasing urban unemployment as financially strapped companies shed labour. Since the introduction of reforms, workers can be hired as contract labour and are not guaranteed lifetime employment. As a result of the reforms, the percentage of contract workers in the total labour force employed in the state-owned enterprises rose from less than 4 per cent in 1985 to about 19 per cent in 1993. A small percentage of “permanent” workers were also laid off as a result of the introduction

Box 7.2. EMPLOYMENT CREATION AND EXPORT PROCESSING ZONES

Export processing zones (EPZs) are customs-free areas in which domestic and foreign firms engage in export-oriented activities. They often enjoy preferential treatment, such as tax exemptions on profits, imports and exports; freedom from foreign exchange controls; and streamlined bureaucratic requirements.

In most countries tax-free export processing activities are confined to a particular area or zone; in some countries they are scattered throughout the country. In Mauritius, for example, export processing factories can operate anywhere in the country provided they have an EPZ certificate. In China export processing activities were initially an integral part of the so-called special economic zones (SEZs), the activities and objectives of which went beyond export promotion. Export processing in China has now been extended beyond SEZs, particularly in the coastal regions.

Most EPZ activities are in traditional labour-intensive manufacturing industries, such as textiles and garments, footwear and electric and electronic products. In recent years data processing has also emerged in EPZs, and Governments provided telecommunications facilities (teleports) following a wave of investments by foreign companies, mainly from the financial and air transport sectors. In the Republic of Korea and Taiwan Province of China, higher-technology, skill-intensive production replaced low or unskilled labour-intensive activities. Shifts towards skill-intensive manufacturing are also taking place in other countries. These exceptions notwithstanding, however, EPZ activities are overwhelmingly low-skill and labour-intensive in most countries.

Several objectives, including the creation of employment opportunities, the generation of foreign investment and export earnings, the expansion of fixed capital stock and the promotion of technology transfer, underlie the establishment of EPZs. EPZs have been particularly effective in employment generation. The *World Investment Report 1994* estimates that there are more than 170 zones in operation in 56 developing countries, directly providing some 4 million jobs.^a

The direct and indirect impact of EPZs on labour markets has recently come under scrutiny. Except for some small countries, such as Mauritius and Saint Lucia, direct employment in EPZs accounts for only a small fraction of the labour force (1 to 2 per cent in most cases) although the impact on the modern manufacturing sector is substantial. In Malaysia, Mexico, Indonesia, Botswana, Singapore, Barbados, Sri Lanka and the Philippines the employment generated by EPZs is estimated to represent at least 20 per cent of total wage employment in manufacturing. In Saint Lucia one out of two jobs in manufacturing is in export processing activities. At the regional level the impact can be substantial: 70 per cent of manufacturing jobs in Penang, Malaysia, for example, are in EPZs.

Employment in EPZs can be short term and insecure. Production facilities are usually leased from the Government or privately owned industrial parks and sudden closures are frequent, as firms relocate in search of lower labour costs. In many cases, produc-

tion processes are seasonal: plants close down, and workers have no assurance of being hired again the following season. EPZs have frequently been criticized for providing sub-standard working conditions and for vigorously discouraging unions. In some countries during some periods Governments have approved exemptions from labour laws in EPZs. The Government of Mauritius, for example, intentionally set minimum wages in the export processing factories lower than in the rest of the economy to counter rampant unemployment and exempted these factories from many labour laws. In the Caribbean, by way of contrast, wages, benefits and working conditions in the EPZs are reported to be superior to those offered by firms operating in the domestic economy.^b

Possibilities for technology transfer and training by firms in EPZs are limited, particularly in industries based on unskilled labour. Nevertheless, some training is available, and exposure to modern manufacturing practices and management does take place. In addition, local residents are often recruited as managers and line supervisors, which provides them with some opportunities for career advancement and acquisition of skills. Labour market segmentation seems to exist between the EPZ and domestic markets, except in South-East Asia and China, where labour movement between EPZs and the domestic economy has occurred.

One of the most striking features of the EPZs is that 70 to 80 per cent of the total workforce consists of women between 16 and 25. This is partly a consequence of the types of industries located in EPZs: female employment dominates in footwear, garments and electronics production everywhere. Most workers are unskilled or semi-skilled and their wages are usually lower than those of male employees. In addition, female workers are generally less educated and less likely to be unionized than their male counterparts, and they are regarded as more disciplined and more submissive to authority.^c

The indirect employment effects of modern manufacturing in developing countries are potentially larger than the direct effects, although the magnitude of the total effect is difficult to gauge. A broad classification of indirect employment effects distinguishes among horizontal, macroeconomic and vertical effects. Horizontal effects refer to the creation or displacement of jobs in local enterprises after a zone is opened. Displacement occurs when production within the zone substitutes for that of local enterprises; creation occurs when production is complementary. Macroeconomic effects refer to jobs generated throughout the host economy as a result of spending by EPZ workers or shareholders or lost as a result of the increased import content of production.^d Vertical effects include the backward and forward linkages which a firm operating in an EPZ may establish with its suppliers and customers. A firm based in an EPZ could purchase raw materials, parts and services in the local market, and it could distribute its products through a network of local dealers.

On the whole, horizontal and macroeconomic effects are believed to be positive but too thinly spread to be measured. In Mexico, however, the fact that employment growth in the *maquiladoras* has been accompanied by a contraction in the more traditional sectors of manufacturing in the local economy (textiles, apparel and footwear) may indicate that some displacement is taking place.

In terms of vertical effects, backward linkages are important on average, but differ greatly across countries; forward linkages are negligible everywhere. The degree of isolation of a zone from the rest of the host economy is an important determinant of the magnitude of all indirect effects on employment; relations and exchanges with local enterprises throughout the country need to be frequent and enduring. The level of development of both local enterprises and the export processing enterprises and government policy will determine how closely the two sectors interact.

Possibilities of linkages depend on the sourcing strategy put in place by export processing companies as well as on the trade regulations affecting export markets. But government policy usually prevents the establishment of relations between the zone and the exterior. Formation of forward linkages is very limited because the zone's output is exported to overseas markets; Governments usually put restrictions on sales to the host economy. Backward linkages are often prevented by either legal or economic barriers, such as formal prohibitions or burdensome bureaucratic pro-

cedures. Some Governments fail to recognize that linkages between a zone and the host economy can have positive effects and treat the sales of locally produced inputs to EPZs as exports, submitting them to strict customs charges and cumbersome licensing requirements. Since inputs imported by EPZ companies from foreign countries are duty free, local suppliers become uncompetitive. A study of EPZs in four Caribbean countries reveals that backward linkages have been successfully developed in only one of them, Saint Lucia, where government policy places no restrictions on domestic producers supplying EPZs.^b The Republic of Korea, Taiwan Province of China and Mauritius have successfully woven EPZs into their industrialization process through the establishment of durable links between the EPZs and domestic suppliers, thus maximizing the potential the zones offer in terms of employment creation.

^aWorld Investment Report 1994 (United Nations publication, Sales No. 94.II.A.14).

^bEconomic Commission for Latin America and the Caribbean/Caribbean Development and Cooperation Committee (ECLAC/CDCC), "Export processing in the Caribbean: lessons from four case studies (fifteenth session of the CDCC, Santo Domingo, 26-29 July 1994).

^cAmirahmadi-Wu, "EPZ in Asia", *Asian Survey*, September 1995.

^dWorld Investment Report 1994 . . . , pp. 185-195.

of bankruptcy procedures, merger and acquisition in the state sector.

41. Some Governments have been able to introduce temporary measures to alleviate the negative impact of reforms. The Bolivian Government created the *Fondo de Emergencia Social* in 1986 to cushion the impact of stabilization policies on employment. The objective of the fund was to generate employment for workers displaced by the economic crisis through labour-intensive projects in productive and social infrastructure financed on a small scale.³⁰ Chile established an emergency employment programme which absorbed 13 per cent of the labour force at the height of the economic crisis in 1983. Not all employment programmes have been reform induced or conceived as a response to a temporary increase in unemployment, however. Permanent employment programmes have also been established as part of an overall strategy to deal with unemployment and underemployment problems, particularly in rural areas. Usually these programmes have been aimed at the poor. The Employment Guarantee Scheme (EGS) in the Indian state of Maharashtra is one of the most prominent examples of such initiatives.³¹ Public works programmes create infrastructure which is required for rural development, although the quality of the assets created has not always been standard, and the programmes have not necessarily been productive or pro-poor. A more significant shortcoming of these programmes is that unless they are institutionalized their effect on the demand for labour is temporary, and they do little to expand the earning capacity of the unemployed.³²

42. Most economic reforms involved adjustment of the exchange rate. The impact of devaluation on employment cannot be easily assessed given the multitude of factors at play, including the relative importance of tradeable and non-tradeable sectors in the economy, their respective labour intensities and the speed with which economic agents can respond to changes in incentives.³³ In addition to its positive impact on the exportable sector, devaluation may stimulate import-competing industries, as it has in Côte d'Ivoire since the devaluation of the CFA franc in 1994. The impact of devaluation on employment also depends on the degree of import dependence and liberalization of the economy. The balance-of-payment adjustments that took place in developing countries in the first half of the 1980s were based on severe import compression so that surpluses could be quickly generated in the trade account to meet debt-servicing obligations given sluggish export growth and the absence of foreign private capital inflows. Imports collapsed and with them the imported input-dependent manufacturing sectors of several developing countries. In more recent adjustment efforts, devaluation has been accompanied by a process of trade liberalization, which may partially offset the increase in the cost of imported inputs brought about by devaluation. Liberalization implies increased competition for domestic producers, which, exposed to more efficient foreign producers, must either improve their competitiveness—usually by reducing labour costs—or cease their activities. Since 1990 the process of trade liberalization in Brazil has led to a profound restructuring of industrial activities, which brought about a decline of more

than 20 per cent in the level of employment in (formal) manufacturing in the state of Sao Paulo between 1990 and 1994. But liberalization of the economy also leads to new economic opportunities, which may be positive in terms of employment creation. In Mexico, for example, increased foreign direct investment in the manufacturing sector expanded employment in that sector by 30 per cent between 1989 and 1994 (see box 7.2).

43. In some Latin American countries, however, trade liberalization has been accompanied by an appreciation—rather than a devaluation—of the exchange rate as a result of the use of the foreign exchange rate as a “nominal anchor” of stabilization programmes. In Argentina, the adoption of the Convertibility Plan in 1991 fixed the exchange rate parity against the dollar, empowered Congress to approve any devaluation and limited any expansion of the monetary base to the accumulation of foreign reserves. The Plan was successful in terms of controlling inflation, and Argentina now has one of the lowest consumer price inflation rates in the world. But the effect on employment has been harsh. Within a fixed exchange rate regime, the peso appreciated in real terms as a result of massive inflows of foreign capital during the first half of the decade and the inflation differentials between Argentina and its major trading partners. This appreciation led to an increase in labour costs—measured in dollar terms—of the export and import-competing sectors. As the Argentine economy lost its competitiveness on both the external and the domestic markets imports soared and unemployment rose from 6.5 per cent in 1991 to 11.5 per cent in 1994. It has been argued that unemployment would have been greater during that period had it not been for the boost in domestic demand brought about by stabilization (GDP grew by an annual average rate of 7 per cent during the period 1991/1994). When the temporary halt in capital inflows reduced domestic demand in 1995, unemployment soared to 18 per cent.³⁴ It should be noted, however, that expansion of the labour force in a recessionary environment may also have contributed to soaring unemployment. In response to deteriorating employment possibilities and earnings of male workers, female participation rates increased in Argentina, rising from 31.5 per cent in 1994 to 35.1 per cent in 1995.

44. Labour market reforms were introduced to eliminate rigidities in local labour markets and increase the demand for labour. These rigidities were reflected in the institutional arrangements regulating the hiring and firing of workers, in wage levels and in wage-related costs. There has been a trend towards decreasing the real cost of labour, increasing the flexibility of labour norms and shifting employers' costs to the employees or the Government. In several countries, minimum wages have lost their purchasing power, and average wages have fallen, particularly in Africa and Latin America. In some countries, mainly in Latin America, unemployment insurance was introduced to reduce the burden of severance payments on firms. In addition, old age pension systems have been revamped, and the new structure that emerged now requires little—if any—contribution by employers. Labour markets in developing countries have proved to be highly flexible but this has not been sufficient to create jobs fast enough, and higher unemployment has emerged in several countries.

45. Critics of reform have argued that labour supply conditions are not the main cause of unemployment in developing countries, where the lack of demand, particularly of investment, is the real problem. They note that in East and South-East Asia, where investment continued to grow, unemployment was not a problem.³⁵ They also claim that labour regulations have not hindered the demand for labour in developing countries, where few of these regulations are enforced,³⁶ and that some labour regulations have positive effects on raising the rate of human capital accumulation. While this debate remains still very much alive, it should be recalled that labour market reforms are not the only factor at play in the determination of employment levels. These reforms have taken place within the overall restructuring of the economy, which can lead to job losses. It is difficult to disentangle their impact on the labour market from overall developments in the economy.³⁷

46. Finally, while the continuous accumulation of public sector workers and protection of inefficient industries have proved to be unsustainable, the experience of countries well advanced in the adjustment process has shown that reforms take time, and the transition period can be costly in terms of its adverse social consequences. A common by-product of the lack of economic dynamism and the restructuring process has been an increase in poverty and expansion of the informal sector as employment in the formal sector has contracted. A great challenge confronting Governments is therefore the provision or promotion of safety nets for labour made redundant by reforms, while the positive effects of the latter are not felt in terms of faster growth and greater labour absorption.

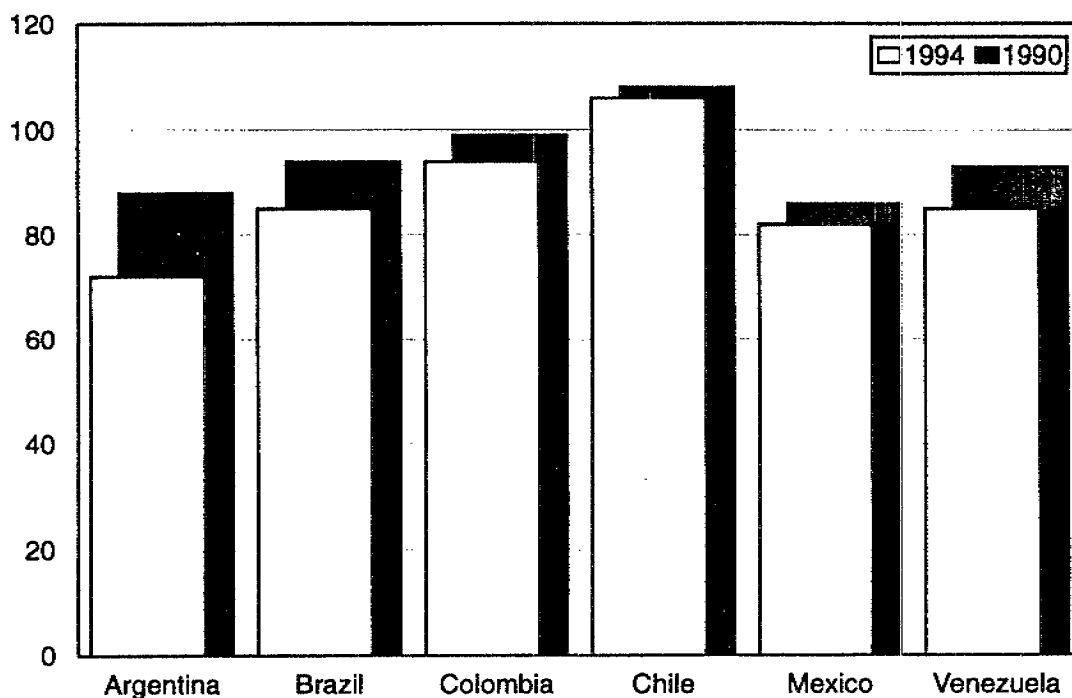
6. *The informal sector: marginalized or integrated?*

47. The informal sector is growing in developing countries. In Latin America, despite faster economic growth and lower open unemployment in the early 1990s, the percentage of the non-agricultural labour force employed in formal activities has continued to decline (see figure 7.6). In Asia the informal sector generated at least 60 per cent of the urban employment in countries such as Pakistan and Thailand in the late 1980s, and there has been evidence of growth in informal sector unemployment in selected large cities across the region.³⁸ In Africa the vast majority of urban employment generated in the 1990s has come from the informal sector.

48. Defining the informal sector has remained elusive, complicating efforts to identify the reasons underlying its growth and the policies needed to ensure that its benefits are maximized. Some authors have argued that the proliferation of informal sector activities is the result of a poor and inadequate legal/administrative framework, which encourages entrepreneurs to conduct their operations outside the law because of the high costs associated with legal compliance. While this argument may be valid in some countries, particularly where taxation and labour regulations have been extensive, it tends to overlook the fact that evasion takes place even in large enterprises in the modern sector, and labour and tax regulations are not an issue for a wide range of self-employed informal workers.³⁹

49. Some studies have defined the sector in terms of its low technological requirements, labour-intensity,

Figure 7.6. Changes in the share of the non-agricultural labour force employed in formal activities, selected Latin American countries, 1990 and 1994 (1980=100)



Source: ECLAC, "The economic experience of the last 15 years" (Santiago, UN/ECLAC, 1996)

small scale of operations (generally drawing upon the work of family members), ease of entry and unsecured and relatively low returns. Others have characterized the sector in terms of its use of management methods which differ from those used in the modern sector, most notably its absence of standardized accounts. Recently, it has been recognized however that the informal sector is not monolithic. There is considerable segmentation in terms of income-generating activities, with those at the higher end presenting barriers to entry, such as higher skill levels and financial requirements. In fact, some segments of the informal sector generate higher incomes than some segments of the formal economy, suggesting that the informal sector may not be the "employer of last resort" but may attract workers given the potential of higher earnings in that sector.⁴⁰

50. The relationship between the informal sector and the formal economy remains unclear. Some see the sector as supply driven, that is, absorbing labour released from or not employable in the formal sector, with negligible, if any, linkages with the latter. In this sense, the growth of the sector can be explained in terms of the limited capacity of agriculture to absorb labour and the resulting migration of rural workers to the cities in search of jobs and higher earnings. Given the relatively small size of the formal or modern sector and the limited skills offered by

the migrant workers, many of these migrants end up working for themselves or taking casual jobs thus increasing the ranks of those employed in the informal sector. The relatively high capital intensity of modern manufacturing and its recently observed lack of dynamism have also been identified as underlying the expansion of the informal sector in the urban areas. Others believe that workers are attracted to the sector in view of the possibility of higher earnings and that the informal sector should be seen as an important component of successful development which should be supported by adequate policies.

51. Among proponents of this demand-driven view, some believe the rapid growth of the sector is caused by changes in the production process in the formal sector. "Informalization" by the formal sector allows it to increase its flexibility to respond to the changing economic environment and global restructuring by shifting production and services to outside contractors while cutting wage costs. Indeed, it has been argued that changes in employment result from changes in the practices of enterprises. Reduced product cycles, changes in technology and increased international competition have forced firms to respond more quickly to fluctuations in demand and changes in consumer tastes. Production units have been reduced and now comprise a secure core of workers

surrounded by a periphery of temporary workers, outworkers and subcontractors. The characteristics of the macro environment may also be conducive to informalization. In Brazil, for example, increased informalization is believed to have been dictated by the fact that macro-economic instability prevents long-term planning, and investment and existing labour market institutions encourage formal sector enterprises to establish informal labour contracts.⁴¹ But while the process of informalization seems to explain some of the dynamics of informal sector growth in some countries in Latin America and Asia, it does not explain the growth of the sector or the intensification of the process in Africa, where the informal sector has minimum forward productive linkages with the formal economy, in part because of the poor quality and unreliability of its production. Backward linkages are significant, however, and some use of the informal sector in distributive activities by the formal economy has been observed.⁴²

52. These arguments may not be mutually exclusive. Given the diversity and complexity of the sector, they provide interesting insights that may help understand different aspects of this phenomenon.

53. The difficulties in defining and analysing the informal sector have caused some authors to abandon the concept altogether⁴³ and focus instead on a more easily identifiable—albeit not free from definitional problems either—object of analysis, the micro- and small enterprise. These firms are more homogeneous than the informal sector and have demonstrated significant capacity in terms of labour absorption. Small enterprises are estimated to have absorbed more than 40 per cent of all new entrants into the labour force in Botswana, Kenya, Malawi, Swaziland and Zimbabwe during the past decade. In China self-employed units, which can employ up to 8 workers, absorbed more than 29 million workers in 1993. In Latin America 22 per cent of the non-agricultural labour force was estimated to be employed in small enterprises in 1993.⁴⁴ Given the ability of this sector to generate employment, some argue, obstacles to their development should be reduced or eliminated by introducing appropriate policies so that their contribution to job creation and improved earnings can be maximized.

54. Laws and regulations are not perceived as the most serious barrier to the development of micro-enterprises.⁴⁵ While the degree of compliance varies widely within the countries in which surveys were conducted (Algeria, Ecuador, Jamaica, Niger, Swaziland, Thailand and Tunisia), a significant share of these enterprises at least partially abide by established regulations. In countries in which incentives to comply exist (such as access to credit and tax rebates), conformity with the administrative and institutional framework is significant. This is not to say that existing regulations cannot be improved upon or adapted in order to be more supportive of the sector. Lack of capital, limited access to credit and insufficient demand top the list of the major impediments to growth of the sector. Indeed, credit allocation in developing countries has been notorious for its discriminatory practices against small businesses, particularly businesses unable to provide loan guarantees.

55. The problem of insufficient and unstable demand seems to be a source of concern in countries with rela-

tively low levels of income, particularly in the rural areas, where micro-enterprises are usually less dynamic than their urban counterparts. The survival of these businesses is constrained by the low incomes and productivity of the rural population engaged in agriculture. Given their limited linkages with the rest of the economy and low accumulation it is not clear how much momentum these enterprises may be able to sustain. Insufficient demand is a problem in several countries, not all of them in sub-Saharan Africa.⁴⁶ In contrast, the success of small (non-farm) enterprises in rural areas in China can be attributed in part to rural economic growth since 1978. With rural income growing by an average annual rate of 12 per cent from 1978 to 1985, strong demand for goods and services emerged. The Government of China also launched a series of policy measures (credit, tax, trade and investment liberalization) to promote the sector.⁴⁷

56. By containing overall demand or leading to a decline in incomes, restrictive economic policies have adversely affected the sector in several countries, including Algeria during the implementation of adjustment measures in the early 1990s and China as a result of policies to contain inflation. Policies aiming at the development of the sector per se may not be sufficient, as its growth potential rests in part on the overall level of demand in the areas in which it operates. Overall macroeconomic policy needs also to be growth conducive.

57. Employment creation by micro-enterprises is often the result of new starts. Surveys conducted in five sub-Saharan countries indicate that start-ups accounted for 73 per cent of the employment creation by the sector. The rate of survival of these enterprises is low, and in some cases net employment creation is actually negative.⁴⁸ Policy intervention may be required to increase the survival rate of micro-enterprises, since those which do survive the difficult initial period can contribute to employment creation.

7. Policy considerations

58. The success of countries in which unemployment is low demonstrates that rapid sustainable economic growth is essential for employment generation. How such growth can be promoted remains open to debate, although there is general agreement that macroeconomic stability is a necessary, albeit not sufficient, condition. The possibility of both domestic and external indebtedness is therefore very much reduced. Although controversy remains on what constitutes a sustainable fiscal position, the role of the State as a source of growth has been greatly diminished; as a result, the stimulus for growth will have to come from the domestic private sector and from abroad. Accordingly, developing countries have embarked on policies aiming at liberalizing their economies so as to increase their competitiveness in international markets and attract foreign investment as a means to promote growth. While the positive long-term effects of reform are yet to be fully realized, the short-term impact on unemployment has been observed. Reforms take time, and only recently have signs of domestic investment recovery been observed in some countries.

59. But growth by itself is no guarantee that employment will rise—the pattern of growth must be labour absorptive. The labour absorption strategy a country adopts is determined in part by the quality and quantity of labour

resources available in the economy. For countries with ample labour resources labour-intensive growth will be based on the use of unskilled labour in both agriculture and manufacturing. Such an approach has limits, however, and it is doubtful that countries will want to base their development strategies exclusively on economic activities that demand unskilled labour.

60. In agriculture the use of land-augmenting and labour-using technologies has been suggested. These technologies favour the use of high-yielding and shorter duration varieties so that expanded land productivity and multiple cropping is possible and labour input is increased. Yet even if these technologies have a positive net effect in increasing the demand for labour, agriculture alone cannot absorb the excess labour in the economy.⁴⁹

61. Non-farm rural activities can offer important employment opportunities. Indeed, small and micro-enterprises operating in both rural and urban areas have been absorbing a great deal of the new labour that has been unable to find employment in the "modern" sector. Yet the potential for such activities in terms of both the sustainability of employment generated and the adequacy of earnings provided remains untapped because of constraints, including poor managerial skills, lack of basic infrastructure, lack of access to technology, credit and inputs, insufficient demand and lack of linkages with the rest of the economy.

62. Demand constraints can be reduced by a growing agricultural sector. Agriculture is a source of demand for production inputs, supplies and services produced or distributed by the non-farm sector. If agricultural incomes are growing, they can support increased consumption and greater demand for basic consumer goods and services supplied by rural industry. The rural non-farm economy is particularly important for the rural poor, and its growth can contribute to the reduction of poverty.

63. Two types of policy measures may be required for the development of micro- and small enterprises. The first type of measure should aim at strengthening the skills of those starting a new business in order to increase their chances of survival. The second type of measure should target constraints to growth (by increasing access to credit and adequate technology, for example). Given that policy intervention requires fiscal resources, which are usually limited, and that most micro- and small enterprises do not survive, Governments will need to be selective in supporting the sector. Evidence of lack of growth in the micro- and small enterprises sector is stronger in Africa than in Latin America, which may suggest that impediments to the development of the sector may be more serious in Africa.⁵⁰ Many start-ups are one-person enterprises—often the least efficient size in the business—and a high percentage of these enterprises fail. On the other hand, small increases in size are often associated with significant increases in economic efficiency.

64. Micro- and small enterprises should not be seen as the panacea for the employment and development challenges facing developing countries. These enterprises currently cater to low-income segments of the markets, supplying goods and services of relatively low quality using technology that is appropriate to the markets in which they operate. If developing countries are to increase their participation in international markets and to

succeed in the global economy they must be able to supply higher quality goods and services demanded at competitive prices. Moreover, they must be able to respond quickly to the changing tastes and preferences of international consumers. Only the most dynamic segments of the small enterprise sector—which usually have links with technically more efficient large-scale enterprises operating in the modern sector of the economy—are currently able to do so.

65. Small and rural enterprises have played an important role in the industrialization process in several East Asian countries. It has been argued, for example, that policies on ancillary activities, on subcontracting and on location of industries in rural areas in Japan were designed to produce effective linkages between small and large-scale enterprises.⁵¹ It is not clear, however, whether the conditions that made this pattern of growth possible there currently exist in developing countries, where most micro- and small-scale enterprises may not be able to supply goods and services of the quality and with the reliability required by modern industry. Moreover, many of these enterprises operate in sectors of activity in which linkages cannot be established. This is not to say that micro-enterprises do not have a role to play in the development efforts of developing countries. Developing countries should consider adopting policies which increase productivity, upgrade output and forge durable linkages between these firms and the rest of the economy. There is, however, a long way to go before the growth and income potential these industries offer can be realized and the extent of their contribution to the overall growth of the economy should be seen with some perspective.

66. In manufacturing, the development of industries based on unskilled labour has been advocated, and the example of the East and South-East Asian countries is constantly evoked. Such a development strategy needs to be anchored to appropriate policies with a view to reducing existing distortions in the economy which favour the use of capital rather than labour. Exchange rates and tariff regimes, for example, should not discriminate against labour-intensive activities. An artificially appreciated exchange rate increases labour costs in foreign currency terms and reduces the competitiveness of the domestic economy. Before trade is liberalized, local producers should be given adequate time to prepare to face international competition. The dismantling of barriers on capital goods imports—to facilitate the absorption of modern technology available elsewhere—and the abolition of disincentives on export should thus precede overall liberalization of the trade account.

67. Low-skill-based manufacturing, however, should be perceived as temporary, an early stage of an evolving development strategy, and not an end in itself. First, because the employment it creates is vulnerable to the emergence of cheaper sources of labour. Second, it may leave the country with limited indigenous technological capacity. Finally, it may create a pattern of dependent industrialization trapping the economy in a low-income path. Upgrading of existing labour skills may be required eventually to shift the economy to a higher skill pattern of development, in which the technological process is incorporated into the production process so as to maintain competitiveness and sustain growth. The Republic of

Korea, Taiwan Province of China and Singapore, among others, are familiar examples of countries or areas which gradually shifted from low-skilled labour-intensive manufacturing to more skill-intensive manufacturing. Such a shift should not be considered possible only in manufacturing (and services). Agriculture also provides opportunity for skill-intensive growth, as Chile's experience in developing agricultural products for export (particularly fresh fruits) shows.

68. Skill upgrading may not be enough to tackle the unemployment problem, however. In several developing countries both the level of educational attainment and the level of unemployment remain high. Education per se, by acting only on the supply side of the labour market, offers no guarantee that the economy will generate enough job positions. There must be demand for that skilled labour as well.

69. In designing development strategies, policy makers must recognize that their economies are part of the global environment. The increasing globalization taking place today may make it more difficult for Governments to use policy instruments used in the past. Although Governments can still intervene in and guide their economies, globalization has limited the room for maneuvering. Policy makers must adopt policies that simultaneously generate employment and increase efficiency so that their countries' products are able to compete on global markets.

70. Increasing globalization and integration of the world economy have the potential to spur growth in developing countries, but barriers to integration must be overcome. While some of these constraints can be dealt with at the national level—and the process of economic restructuring taking place in these countries has much to contribute⁵²—others, including the problem of market access, require increased international cooperation.

71. Despite the success of the Uruguay Round of multilateral trade negotiations, many manufactures exported by developing countries, particularly labour-intensive goods, continue to face relatively higher tariff levels, tariff escalation persists, and anti-dumping actions are frequent, hindering these countries' industrialization efforts.⁵³ Recently, labour standards have become an issue in international trade. Developing countries have been accused of "unfair" competition practices for allegedly failing to comply with internationally agreed upon labour standards, and some developed countries have threatened to impose higher tariffs and other trade sanctions on these imports in order to compensate for the lower labour costs in developing countries.

72. It is not clear how much labour shedding in the developed economies can be attributed to increased exports by developing countries. As these are dynamic economies undergoing changes, employment losses in one sector may be compensated by employment creation in other sectors where they have a competitive edge, and the net effect of increased trade—not to be forgotten is that developed countries' exports to developing countries expanded rather rapidly in the past years—ends up being positive.

73. Another area requiring strengthening is official development assistance flows. Only a handful of developing countries have access to global private capital markets; the vast majority remain excluded from these markets, confined to the dwindling flows of official assistance.

Inadequate access to capital makes it difficult for these countries to restructure and modernize their economies, to participate more actively in the global economy and to address the employment challenges they currently face.

B. LABOUR MARKETS AND UNEMPLOYMENT IN TRANSITION ECONOMIES

1. Trends in employment and unemployment

74. Since the abandonment of central planning and the introduction of market-oriented reforms, all of the former socialist countries have experienced a surge in open unemployment, which has significantly altered the existing social landscape. Guaranteed employment—a pillar of state-directed policies aimed at creating unlimited demand for labour without due regard to the efficiency of its use—ceased to exist when open-ended transfers of budget subsidies to public enterprises were curtailed. The emergence of some unemployment as part of the economic restructuring as a result of transition was expected; it was considered the price to be paid for a more efficient organization of the national economy—including greater integration with the world economy—geared towards achieving higher national incomes and substantial improvements in the overall quality of life.

75. While these strategic goals remain on the agenda of the ongoing reform process, in practice the transition has imposed a much heavier social toll than was anticipated by either policy makers or the population. Unemployment rose to high levels in all of the transition economies and wages and hours were cut. Wage arrears, particularly in the countries of the Commonwealth of Independent States (CIS) became widespread. The decline in economic activity varied from country to country, but in most countries output fell by 20 to 50 per cent in the first few years after the reform was implemented. In the Baltic States, the Russian Federation and other countries of the former Soviet Union, the weighted average of the cumulative decline in real GDP between 1991 and 1994 was 49.2 per cent.⁵⁴ Although the loss of jobs in transition economies was lower than the corresponding decline in production, joblessness rates often exceeded those in other European countries with much higher per capita incomes and well-established safety nets. Only a dramatic and sustained economic rebound in the transition economies can substantially improve the employment outlook there in the medium term. In the long term, new jobs will be created and growth in employment will be sustained as a result of successful recovery and more efficient labour markets.

76. There are already signs of a possible improvement in the labour market. In the mid-1990s the rate of employment contraction slowed in most Eastern European countries as a result of a tentative economic upturn, and unemployment rates declined slightly or stabilized. In the Czech Republic unemployment is the lowest in Central Europe—an achievement under any circumstances, but particularly so given the strain of a systemic transformation. Employment began to grow in other countries, including Albania, Poland and Slovakia, during the period 1995-1996. In the CIS countries, however, employment continued to fall and unemployment rose.

77. As part of restructuring and reform, centralized wage setting with rigid tariff structures gave way to collective bargaining although in most countries some form of modified incomes policy was retained. The decline in real income experienced by a substantial proportion of the population following liberalization of prices and macroeconomic stabilization was only partially offset by new sources of income (derived from entrepreneurial activities or returns on property, for example) and most people had to seek part-time employment to supplement their income. Unregistered or unofficial employment became common in many countries.

78. The emergence of widespread and persistent open unemployment has been a major social challenge for Governments in the transition economies. Growing poverty and the widespread loss of jobs are not just economic and political concerns; they represent a substantial psychological burden for a population accustomed to job security. A troublesome sign has been observed in some countries: the number of discouraged job-seekers among the long-term unemployed who have not renewed their registration with employment offices has risen.

79. The emergence of mass unemployment required major changes in the scope and content of government-supported employment policies, including the creation (sometimes from scratch) of institutional networks aimed at easing the plight of the unemployed. These measures have required major budget allocations at a time of already tight public finances and often a shrinking tax base. As a result, many transition economies were forced to tighten eligibility criteria and modify the system of unemployment entitlements. Further redistribution of social assistance to those in need may be on the agenda.

80. While the ongoing globalization of the world economy presents new opportunities for trade and investment, its effect on employment in the transition economies has been neutral or negative. In the long run fuller utilization of human resources may depend upon better allocation of resources to sectors in which these countries have a comparative advantage. Although globalization and liberalization inevitably cause some unemployment, liberalization policies foster private entrepreneurship and bolster the prospects of structural change that will lead to sustained economic growth.⁵⁵ These policies and a more open trade environment may thus create employment, particularly in the longer run. Governments must try to identify policy instruments which will not only curtail the rate of job losses but also actually increase employment.

81. A commitment to full employment was deemed essential by the World Summit for Social Development. Under central planning, guaranteed full employment was achieved (except for some inevitable frictional unemployment), but much of the employment in the state-owned sector was not efficient, productivity criteria were missing in wage setting, and there was substantial labour hoarding within enterprises. Full employment in these economies was achieved at the cost of low labour productivity and low wages, and a guaranteed right to employment was in practice a *de facto* legal obligation for most people, often enforced through administrative coercion. The Programme of Action of the Copenhagen Summit defined policies and actions for attaining the objective of full employment based on principles of a market economy. Despite the revolutionary changes in the de-

mand for labour and in the nature of work, the concept of full employment remains valid. But employment must be productive and freely chosen. While the definition of full employment in terms of an overall level or quantity of employment need not be changed, new issues—including what constitutes an acceptable job, what represents equitable access to employment opportunities and what constitutes employment security—need to be addressed.⁵⁶

2. *Economic restructuring and employment*

82. In all transition economies changes in ownership structure as a result of privatization led to a decrease in the role of the state sector in employment. State involvement was reduced substantially, and in a very short time the near monopoly of the State over economic activity ceased to exist. The primary rationale for privatization in Eastern Europe and the CIS countries was a quest for economic efficiency and revitalization of the economy. Privatization was also seen as a way to attract the foreign capital necessary for the modernization of a substantial part of the industrial stock still overburdened with “smoke-stack” factories as part of the legacy of central planning. In the mid-1990s the share of the private sector in total employment reached 36 per cent in Bulgaria, 45 per cent in Slovakia, 48 per cent in Romania, 53 per cent in the Czech Republic and more than 60 per cent in Poland.⁵⁷ In the Russian Federation the share of the non-state sector in total employment more than tripled in the past five years, reaching about 60 per cent in 1995.⁵⁸

83. Following mass privatization, growth in employment in the private sector primarily reflected a change in ownership of existing enterprises. Recently, more and more “greenfield” businesses have been set up, and private-sector employment has actually increased. In many cases the growth of the private sector paralleled the break-up of large state-owned enterprises.⁵⁹

84. Table 7.8 shows the shift of jobs across major branches of economic activity, and reveals that in all of the transition economies employment in manufacturing has declined. This shift reflects a structural shift similar to that which is occurring in the developed market economies. The decline in industrial employment began before the transition process but has intensified in the past five years. Within industries the picture differs: in some countries employment in capital- and energy-intensive industries declined less than in labour-intensive industries, such as food or textiles. Along with demand contraction caused by recession, the redirection of foreign trade towards new partners, largely from the European Union, has been responsible for these shifts. The decline in employment in heavy industry, mining and occasionally agriculture often increased regional employment disparities within countries.

85. In most transition economies employment in the engineering industries (electrical machinery, transport equipment, precision instruments and some other knowledge-intensive industries) declined. In the Russian Federation employment in the engineering industries fell from 9.8 million to 5.3 million between 1989 and 1994, declining from 51.5 per cent of total manufacturing industry employment in 1989, to 41 per cent in 1994.⁶⁰ In Bulgaria employment in the engineering industries fell by almost 50 per cent between 1989 and 1993, dropping

TABLE 7.8. EMPLOYMENT CHANGES, BY SECTOR, IN SELECTED TRANSITION ECONOMIES
(Share of total employment)

Country	Agriculture		Industry			Services		Total 1989	Total 1993	Health and education 1989	Health and education 1993	Financial Services and real estate		Total 1989	Total 1993
	1989	1993	Engineering 1989	Engineering 1993	Construction 1989	Construction 1993	1989					1993			
Bulgaria	18.6	22.1	10.6 a	6.8 c	7.0 a	4.2 c	45.3	36.6	10.2 a	9.7 c	0.5 a	0.7 c	36.0	41.3	
Czech Republic	10.6	6.9	10.4 b	7.7 e	4.0 b	7.3 e	49.2	44.6	9.7 b	10.0 e	3.8 b	5.3 e	36.0	41.3	
Hungary	15.5	9.1		4.5 c	3.6 c	3.4 e	37.8	33.8	9.2 c	9.7 e	3.5 c	3.3 e	46.7	57.1	
Latvia	17.4	19.5					37.4	28.5					45.2	52.0	
Lithuania	17.9	19.6					42.1	38.0					40.0	42.4	
Poland	26.8	25.8			4.0 d	3.9 e	36.8	31.6	8.3 d	8.2 e	0.9 d	1.3 e	36.4	42.6	
Romania	27.9	35.9	0.1 b	0.1	4.4 a	4.4	45.1	35.8	5.3 a	5.6	3.0 a	0.5	27.0	28.3	
Russian Federation	13.5	14.6	12.0 a	9.1	12.0 a	9.7 f	42.8	39.5 e	15.2 f g	18.0 f g	0.5 a	1.3 f	43.7	45.4	
Slovakia	13.8	12.1	7.0 b	5.0 e	4.8 b	5.9 e	46.3	39.8	9.8 b	10.0 e	3.2 b	3.4 e	39.9	48.1	

Source: UN/DESIPA, based on ECE, OECD and national statistics

Note: Agriculture includes forestry, industry total includes construction, services total was obtained as residual

a 1990

b 1991

c 1992

d 1993

e 1994

f 1995

g Includes health, education, culture and arts, sports, and welfare services

from 552,900 to 269,400. In Hungary employment declined from 437,000 to 268,000 over the same period.⁶¹ In some sectors employment has adjusted to declines in output, but generally in most countries the decrease in employment has not corresponded to the decrease in output (see table 7.9), leading to a sharp decline in industrial productivity.

86. Employment in the services sector has grown in the transition economies. In the past five years the shares of service sector employment increased by more than 10 per cent in the Czech Republic, Hungary and Slovakia; by the mid-1980s services accounted for the largest share of total employment, ranging from 41 per cent in Bulgaria to 57 per cent in Hungary.⁶² The emergence of a market-oriented environment increased demand for a range of new services, such as financial analysis and accounting, sales promotion and investment consulting and marketing. At the same time, the growth of small businesses in such areas as retail trade or catering created new jobs.

87. The share of agriculture in total employment declined substantially only in the Czech Republic, Hungary, Slovakia and Slovenia. In Bulgaria, the Baltic States and Romania, the share of employment in agriculture increased, possibly because of the privatization of small plots and the increase in the number of individual farms. In the Russian Federation, agricultural employment rose, primarily because of the inflow of migrants from former republics of the Soviet Union.

88. The advent of structural and institutional transformation based on private property and a market-oriented allocation of resources was incompatible with the previous "soft-budget constraint" on enterprises, which was a typical feature of the centrally planned economy. Privatization and restructuring led to changes in the behaviour of enterprises in transition economies although labour hoarding persists in these countries. As table 7.9 shows, the decline in employment has been smaller than the decline in production. In some countries, such as Poland and Hungary, labour shedding did take place. Elsewhere, however, particularly in CIS countries where bankruptcy mechanisms were weak or non-existent, enterprises retained excess labour. The inadequacy of bankruptcy laws coupled with a lack of proper financial discipline in enterprises also led to the piling up of inter-enterprise arrears, a significant factor in the subsequent building up of wage and tax arrears in most of the countries of the former Soviet Union. In those countries, shedding of excess labour may have to await changes in enterprise behaviour. The recovery of output in nearly all of the Central and Eastern European economies that started in 1994-1995 and the marked deceleration in the rate of output decline in the Russian Federation and some other CIS countries suggest that the productivity of labour may no longer be declining. But further labour shedding at the enterprise level to enhance international competitiveness remain on the agenda of many transitional economies.⁶³

89. Displacement of workers within the formal sector did not automatically lead to a swelling of the ranks of the unemployed in all countries. Following the start of transition there was a significant decline in the previously high activity rates in most of the transition countries. In Central Europe activity rates fell by 5 to 10 percentage points between 1989 and 1995.⁶⁴ This trend has continued since

then, albeit at a slower pace. The decline in measured activity may reflect preferences (for social or family reasons), diminished economic opportunities, the move to unrecorded employment or unemployment, or the impact of the benefit regime on unrecorded employment.⁶⁵ In several transition countries the growing informal sector has been absorbing workers made redundant by the transition, although in most cases the unrecorded jobs have supplemented rather than replaced employment in the formal sector. In Poland, for example, the number of people working in the informal sector has increased markedly since the launching of the economic and political reforms,⁶⁶ and hidden employment is believed to be growing across Central Europe, most notably in Hungary.⁶⁷

90. The precipitous drop in real wages (addressed in more detail below) has spurred growth in secondary employment. Many people have preferred to keep their often poorly paid main job, complementing their wages with additional earnings through employment found in the formal or informal sector. In-kind benefits and social services still provided by large enterprises have induced many workers to seek second jobs rather than change jobs. In the Russian Federation, for instance, according to a 1994 survey, an estimated 20 per cent of the economically active population held second jobs—seven percentage points more than in 1989 and several times the level typical in developed market economies.⁶⁸ A survey covering recent employment trends in Siberia in 1995 confirms the national trend: 17.2 per cent of the employed were holding registered or unofficial second jobs.⁶⁹

91. The role played by small and medium-sized firms should not be overlooked. Although total employment decreased substantially, hiring by small businesses continued to rise. The creation of small private enterprises has been the major source of new jobs, entailing at the same time major modifications in the economic structure. In Hungary between 1989 and 1995, in the total number of enterprises, the share of companies with over 300 employees declined from 19.3 per cent to 0.2 per cent, while the proportion of companies with fewer than 21 people increased from 37.6 per cent to 97.7 per cent.⁷⁰ In Poland, 92 per cent of the more than 2 million enterprises employed 5 or fewer workers, 6 per cent employed 6 to 50 workers, and only 2 per cent employed more than 50 workers in 1995, when small and medium-sized enterprises employed about 60 per cent of the total workforce.⁷¹ In all of the transition economies, the move to a market economy has spearheaded the setting up of small private companies. In the longer run, new jobs created by these primarily labour-intensive companies may offset reductions of employment resulting from labour shedding.

92. High inflation during the first few years of transition eroded purchasing power. Real wages declined throughout Eastern Europe after economic reforms were launched (see table 7.10). In the Russian Federation real wages fell by 33 per cent in 1992, and despite some increase in 1993, real wages in 1995 were only 72 per cent of their 1990 level.⁷² Similar declines were observed in other transition economies. In Albania and Bulgaria real wages fell by more than 40 per cent in 1991; the decline in Kyrgyzstan and Ukraine was more than 30 per cent. In the Czech Republic, Slovakia and Bulgaria real wages fell by more than 20 per cent. Reversal of this trend took

TABLE 7.9. OUTPUT AND EMPLOYMENT CHANGES IN SELECTED TRANSITION ECONOMIES, 1990-1995

Country	1990		1991		1992		1993		1994		1995 ^a	
	GDP	Employment	GDP	Employment	GDP	Employment	GDP	Employment	GDP	Employment	GDP	Employment
Albania	-13.1	-0.7	-29.4	-1.7	-6.0	-19.7	11.0	-7.2	7.4	7.7	6.0	4.1
Bulgaria	-9.1	-6.1	-6.9	-13.0	-5.7	-12.7	-3.7	-1.6	2.2	-2.0	2.5	
Former Czechoslovakia	-1.2	-0.9	-14.2	-5.5	-6.4	-2.6	-0.9	-1.5	2.6	0.7	4.8	5.1
Estonia		-2.0		0.5	-14.8	-6.3	-7.8	-8.5 ^b	4.0	-2.1 ^b	3.0	
Hungary	-3.3	-0.6	-11.9	-2.6	-3.0	-9.1	-0.8	-5.0 ^b	2.9	-2.2 ^b	2.0	-0.9 ^b
Latvia		0.1		-0.8	-34.9	-3.7	-14.9	-7.4	0.6	-3.2	-1.6	-1.5
Lithuania		-2.6		2.4	-35.0	-2.6	-17.0	-4.2	1.5	-5.8	3.1	
Poland	-11.6	-3.6	-7.0	-5.5	2.6	-4.0	3.8	-2.4	5.0	1.8	7.3	1.1
Romania	-8.2	-1.0	-12.9	-0.5	-8.8	-3.0	1.3	-3.8	3.5	-0.5	6.9	
Russian Federation		-0.4		-2.0	-14.5	-2.5	-8.7	-1.9	-12.6	-3.3	-4.0	-2.3
Slovakia		-0.8		-7.9		-5.3	-4.1	-0.2	4.8	-1.8	7.4	3.0

Source: UN/DESIPA and ECE

^a Mid-year for employment data

^b End of year

place only in the Czech Republic and Hungary (since 1992) and in Slovenia (since 1993); in the CIS countries prices rose more rapidly than wages. In all of the transition economies the ratio between the minimum wage and the average wage fell (see figure 7.7). Attempts to raise the minimum wage by the rate of inflation have been largely unsuccessful; the available data (which are very scarce) demonstrate that minimum wage to subsistence minimum ratios have declined dramatically in Bulgaria, the Russian Federation and Ukraine (see table 7.11). In many countries cash transfers to households declined steeply in real terms because of budgetary constraints, and the number of people needing assistance, including some who are nominally employed, has increased in all of the transition economies.

93. Growth of the private sector in transition economies, liberalization of wage policies and phasing out of state-regulated wage scales played a key role in the gradual reversing of wage structure distortions, including a bias in favour of heavy industry. As the level of wages gradually begins to reflect relative labour scarcity and

productivity, wage differentials have increased in all of the transition economies. Wage differentiation has increased across firms within an industry, within and between skill groups and within groups with identical industry and human capital characteristics.⁷³ The evolution of the wage structure has reflected increased returns to schooling for wage earners whose skills are in greater demand, with university graduates commanding a wage premium in many countries.

94. Widening wage differentiation inevitably challenges policy makers to find an appropriate way of protecting the lowest paid workers. The quest for such policies raises unresolved questions about the effectiveness of statutory minimum wages and the desirability of wage indexation.⁷⁴

95. The emergence of a more decentralized labour market in transition economies has been accompanied by substantial de-unionization in most industries. Trade union membership has fallen in all Eastern European countries, although in some cases unions became more effective in guarding the rights of their members.

TABLE 7.10. ANNUAL CHANGES IN REAL WAGES IN SELECTED TRANSITION ECONOMIES, 1989-1995
(Percentage)

Country	1989	1990	1991	1992	1993	1994	1995
Eastern Europe							
Albania	..	0.37	-42.6	-30.9	-33.8	..	..
Bulgaria	..	6.2	-42.3	14.9	1.3	-20.5	..
Czech Republic	0.9	-5.7	-26.1	13.6	0.1	7.7	4.5
Hungary	2.2	-8.3	-3.1	2.5	2.8	2.45	-7.5
Poland	10.4	-28.8	-5.4	-6.3	2.8	-1.2	-0.2
Romania	3.3	6.1	-19.4	-13.3	-14.9	1.15	..
Slovakia	0.9	-5.7	-26.1	7.5	-7.2	4.5	..
Slovenia	27.6	-26.5	-23.2	-1.2	11.2	6.0	..
CIS							
Belarus	7.2	11.1	4.5	-11.3	-30	..	..
Kazakhstan	..	..	-10.7	10.8	-11.6	-31.3	..
Kyrgyzstan	..	..	40.5	-30.3	-51.5	-25.8	..
Russian Federation	..	..	-3.0	-33.0	4.0	-8.0	..
Ukraine	..	..	31	-41	-58	..	..
Uzbekistan	..	..	-18.3	2.8	6.3	42.1	..

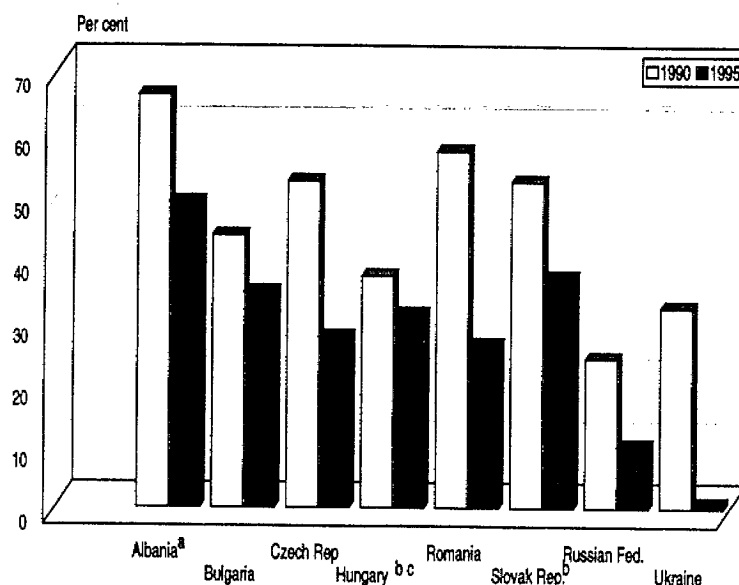
Source: UN/DESIPA, based on ILO data and national statistics.

TABLE 7.11. MINIMUM WAGE TO SUBSISTENCE MINIMUM RATIOS
IN SELECTED TRANSITION ECONOMIES, 1989-1995

Country	1989	1990	1991	1992	1993	1994	1995
Albania	..	..	35	23	40	..	..
Bulgaria	..	..	..	73.6	77.4	60.1	50.1
Czech Republic	..	..	..	200	..	..	90.1
Hungary	97.3	93.8	93.7	98	79.7	78	..
Poland	51	47	63	71	64	66	..
Romania	67.9	46	42	35.9	..	..	..
Russian Federation	..	..	..	24	26	17	18
Slovakia	..	..	..	200	200	198	198
Ukraine	..	72.7	62.5	30.7	5.1	3	1.2

Source: UN/DESIPA, based on ILO data and national statistics.

Figure 7.7. Ratio of minimum wage to average wage in selected transition economies, 1990 and 1995



Source: UN/DESIPA, based on ILO data.

a. Latest data is for 1993.

b. 1990 ratio is based on 1991 data.

c. Latest data is for 1994.

3. The increase in unemployment

96. Joblessness and the fear of joblessness have reduced wage expectations, leading to social acceptance of real wage cuts and ongoing erosion in real incomes. While recent improvements in economic activity in some countries have helped to contain and even reverse increases in open unemployment, in most Eastern European countries unemployment remains high. In Albania, Bulgaria, Croatia, Hungary, the former Yugoslav Republic of Macedonia, Poland, Slovakia and Slovenia, unemployment exceeds 10 per cent (table 7.12). These rates cannot be described as either “natural unemployment rates” or “non-accelerating inflation rates of unemployment” (NAIRU) (see box 7.6) because they are found in environments of generally decelerating inflation and a contracting labour force.

97. Officially registered unemployment in the CIS countries remained low—particularly relative to output, which declined substantially—because of deficiencies in registered unemployment statistics. A comparison of data obtained through labour force surveys (LFS) based on the ILO methodology and registered unemployment received from labour services networks shows that real unemployment in the Russian Federation was almost three times higher than registered unemployment in 1995 (7.5 per cent versus 2.2 per cent). Similar differences were observed in many other CIS countries, primarily because many unemployed individuals were unmotivated to register given the low level of benefits and low expectations regarding labour offices’ ability to help them find suitable employment.⁷⁵

98. Only in the Czech Republic (see box 7.3) and Slovakia did survey-based unemployment match registered unemployment. In Romania, Slovenia and Poland, registered unemployment exceeded LFS unemployment

rates, probably because of the broader definition of unemployment. Figure 7.8 shows labour market slack in selected Eastern European countries.

99. The advent of market-oriented reforms in Eastern Europe facilitated legitimization of many economic activities which often existed alongside the formal sector. While the informal economy was always suspected of providing substantial employment, the paucity of data made estimating the size of the sector difficult. National statistical offices in some transition economies have recently estimated the magnitude of unofficial employment, which is substantial (see box 7.4).

100. During the first stage of economic transition, all countries experienced rising cyclical and structural unemployment as relative prices changed and real output declined. In Poland, the Czech Republic, Slovenia and Slovakia these changes have been reversed only recently; in CIS the economic recovery has not yet occurred. Some decline in unemployment has taken place in Eastern Europe, possibly as a result of the decrease in cyclical unemployment that has accompanied accelerated economic growth and the rapid expansion of small business sectors. The systemic nature of structural unemployment precludes dramatic declines in unemployment unless resources are shifted to sectors in which economic recovery is accompanied by increases in employment. Even if output in industry is restored to its pre-reform levels, employment may not rise because increases in output are likely to be tied to enhanced labour productivity.⁷⁶ In the years to come, the service sector has the potential to be the most important source of new jobs.

101. Employment patterns in many countries have been characterized by an unbalanced regional distribution, largely as a result of the heritage of the command economy of concentrating heavy industry in a few locales. As industrial output contracted, these areas suf-

TABLE 7.12. REGISTERED UNEMPLOYMENT IN SELECTED
TRANSITION ECONOMIES, 1990-1995
(Percentage of the labour force)

Country	1990	1991	1992	1993	1994	1995
Albania	9.8	9.4	26.7	20.2	18	12.9
Armenia . . . . .	..	-3	.5	6.6	6	8.2
Azerbaijan . . . . .	..	0.1	0.2	0.3	0.9	1.1
Belarus . . . . .	..	..	0.5	1.7	2.1	2.8
Bulgaria	1.8	11.5	15.6	16.4	12.8	11.8
Croatia	8.0 ^a	14.1	17.8	16.6	17.3	16.8
Czech Republic	0.7	4.1	2.6	3.5	3.2	3
Estonia . . . . .	..	0.1	1.9	5	5.1	1.8
Georgia . . . . .	..	..	1	2	3.8	3.1
Hungary	1.7	7.4	12.3	12.1	10.4	11.4
Kazakstan . . . . .	..	..	0.5	0.6	1	2.1
Kyrgyzstan . . . . .	..	..	0.1	0.2	0.8	2.9
Latvia . . . . .	..	..	2.1 ^b	5.8	6.5	6.6
Lithuania . . . . .	..	0.3	1	3.4	4.5	6.1
Moldova . . . . .	..	..	0.7	0.7	1	1.4
Poland	6.1	11.8	13.6	16.4	16	14.9
Romania	1.3	3.1	8.2	10.4	10.9	8.9
Russian Federation . . . . .	..	0.1	0.8	1.1	2.1	2.2
Slovakia	1.6	11.8	10.4	14.4	14.8	13.1
Slovenia	5.3 ^a	10.1	13.3	15.5	14.2	13.7
Tajikistan . . . . .	..	..	0.3	1.1	1.8	2
The former Yugoslav Republic of Macedonia	17.1 ^a	24.5	26.8	30.3	33.2	35.6
Turkmenistan . . . . .	..	..	..	..	..	..
Ukraine . . . . .	..	..	0.3	0.4	0.3	0.3
Uzbekistan . . . . .	..	..	0.1	0.2	0.3	0.3

Source: UN/DESIPA, based on ILO and ECE data.

^aAnnual average.

^bPercentage of working age population.

ferred high unemployment. Regional imbalances in unemployment have been exacerbated by the low labour mobility stemming from an insufficiently developed housing market. In some CIS countries labour mobility has also been constrained by administrative or financial hurdles, such as residence permits or the need to register for settlement in large cities. A resulting low propensity for migration has been a negative factor in alleviating high unemployment since, along with stagnant localities, there exist a number of striving commercial centres with better employment opportunities.

102. In some countries, regional disparities in unemployment have been a function of more effective enforcement of bankruptcy laws. Elsewhere, elimination of regional subsidies has been a factor. Often higher than average levels of unemployment stemmed not only from above-average labour shedding but also from slower creation of jobs in areas where the industrial infrastructure or services are poor. Even in relatively successful countries, such as the Czech Republic (see box 7.3) labour shortages in some areas co-exist with double-digit unemployment in others. Large regional differentials in the incidence of unemployment are not diminishing, according to OECD experts: districts with the lowest unemployment rates have the greatest employment opportunities, and the disparity between the location of job seekers and the availability of vacancies is increasing, suggesting that

long-term unemployment may become a feature of areas with high current levels of unemployment.⁷⁷

103. Tightening of labour market conditions in transition economies has played a role in the increase in migratory flows abroad, although fears of mass migration to the West from Central and Eastern Europe has proved unfounded. International labour migration increased both between transition economies and developed market economies and within the transition economies. Western Europe and North America were the preferred points of destination of migrants from Central and Eastern Europe and CIS, particularly for highly educated individuals with marketable skills. Most countries in Central and Eastern Europe and CIS suffered net population losses as a result of migration, with the notable exception of the Russian Federation, where more than 3 million immigrants from CIS entered the country between 1993 and 1995. At least in the short run, international migration is likely to improve the functioning of the market and mitigate unemployment,⁷⁸ even in the absence of comprehensive migration policies, which most countries in Eastern Europe lack.

104. A rise in legal immigration has been a new feature in some transition economies. Countries that have proceeded farther with reform often attract immigrants from neighbouring transition economies. The Czech Republic, Slovakia and Slovenia, for example, experienced positive net migration during the period 1994-1995. Although

Box 7.3 LOW UNEMPLOYMENT IN THE CZECH REPUBLIC

Unlike many other transition economies, where adjustment to new labour market conditions was painful and accompanied by a substantial rise in joblessness, the Czech Republic managed to achieve structural transformation while maintaining low levels of unemployment. Although the open unemployment rate increased to about 5 per cent of the labour force during the initial period of reform, it came down quickly, stabilizing at 3 to 3.5 per cent, one of the lowest levels in Europe.

How was the Czech Republic able to keep unemployment low during a period of significant economic strain? A combination of factors was involved. The outflow rate from unemployment in the Czech Republic was four to five times higher than elsewhere in the region,^a because of a multitude of factors, including enterprise behaviour and wage adjustment. The number of smaller firms rose dramatically, while rapid growth of employment in the services sector offset, to some degree, losses in industry and agriculture.

Although overall unemployment remained low, regional disparities have been large, with double-digit unemployment in Moravia and Central Bohemia. Employment opportunities are highly concentrated, leading to mismatch between the distribution of vacancies and job seekers. These and other labour-market issues have been addressed by effectively implemented active labour market policies.

The foundation for contemporary pro-active labour market policies was laid with the Employment Law, passed in Czechoslovakia in 1991 and left in force in the Czech Republic. The Employment Law was based on a three-pronged approach. Job brokerage assistance was granted to every person actively seeking a job, training was provided when necessary and income support was provided in case of unemployment. The level of entitlements was reduced over time, and spending on unemployment compensation remains only slightly higher than spending on public employment services and wage subsidies to private firms.^b Retraining schemes, the core of active labour market policies, were made widely available and reached many unemployed workers.

One of the most impressive achievements of the Czech Republic was the establishment in 1991 of a legal framework with efficient delivery mechanisms. Labour market policies are administered in a cost-effective way, with very low overhead. Relative to the other transition economies, a higher proportion of Public Employment Service (PES) staff is used for job brokering functions than for unemployment benefit administration, and more PES staff are assigned to tasks that require direct contacts with registered unemployed workers. Each PES staff member works with no more than 30 unemployed clients, for example, a much lower number than in most developed countries, where staff typically handle 200 unemployed.^c Moreover, as a result of better supervision, PES officials have been able to screen vacancies and job seekers better, helping them to achieve better placement and, possibly, lower unemployment. PES placements in 1993-1994 accounted for about half of total exits from the register to jobs, a significant achievement by any standard.^d

In some respects Czech labour policies were similar to those in other Central European transition economies. A determined effort was made to cut the labour supply

in order to ease pressure on the labour market. An early retirement scheme was introduced that decreased slightly the pool of employed workers. The personal income tax for those working beyond retirement age was almost doubled, forcing many working pensioners to retire. Many women, whose participation rate was unusually high under central planning, also left the labour force, with female employment falling by 7 per cent between 1992 and 1995 (it remains to be seen whether this contraction represents a positive development). Negative attitudes towards women's employment also facilitated the decline in labour force participation.^e Relatively large reductions in output in traditionally female-dominated industries, such as clothing and textiles, together with poor re-employment prospects may have forced some women to leave the labour force.^f

Wage structures in state enterprises, which account for slightly less than half of total employment in the Czech Republic, were slow to adjust to market conditions. Following the implementation of reform, real wages declined, as they did in other transition economies, preventing a decline in employment. It is possible that the existence of incomes policies in the state sector retarded the adjustment of wage structures. The Government maintained a relatively high level of spending on wage subsidies, often putting social considerations ahead of efficiency criteria. At the same time, unions were unable to have a substantial impact on wages in either the state or private sectors. This situation is beginning to change: facing competition from private firms for highly educated personnel, both current and former (recently privatized) state enterprises have adjusted wage structures to match private offers. Wage structures appear to be moving away from the patterns produced by central planners' preferences towards patterns observed in market economies.^g

Unlike some other Eastern European aspirants for European Union membership, the Czech Republic did not press for lay-offs and bankruptcies among loss-making enterprises, adopting instead a more moderate approach. Financial conservatism and lack of financial disequilibria at the beginning of transition also helped to achieve macroeconomic stabilization relatively quickly.

While all these factors played roles, one intangible factor should not be overlooked: the adaptability and responsiveness of a highly competent labour force to new sets of incentives.

^aJan Svejnar, "Enterprises and workers in the transition: econometric evidence," *American Economic Review*, vol. 86, No. 2 (May 1996), p. 124.

^bSee *Review of the Labour Market in the Czech Republic* (Paris, OECD, 1995), p. 80.

^cT. Boeri and M. Burda, "Active labour market policies, job matching and the Czech miracle," *European Economic Review*, vol. 40, Nos. 3-5 (1996), p. 807.

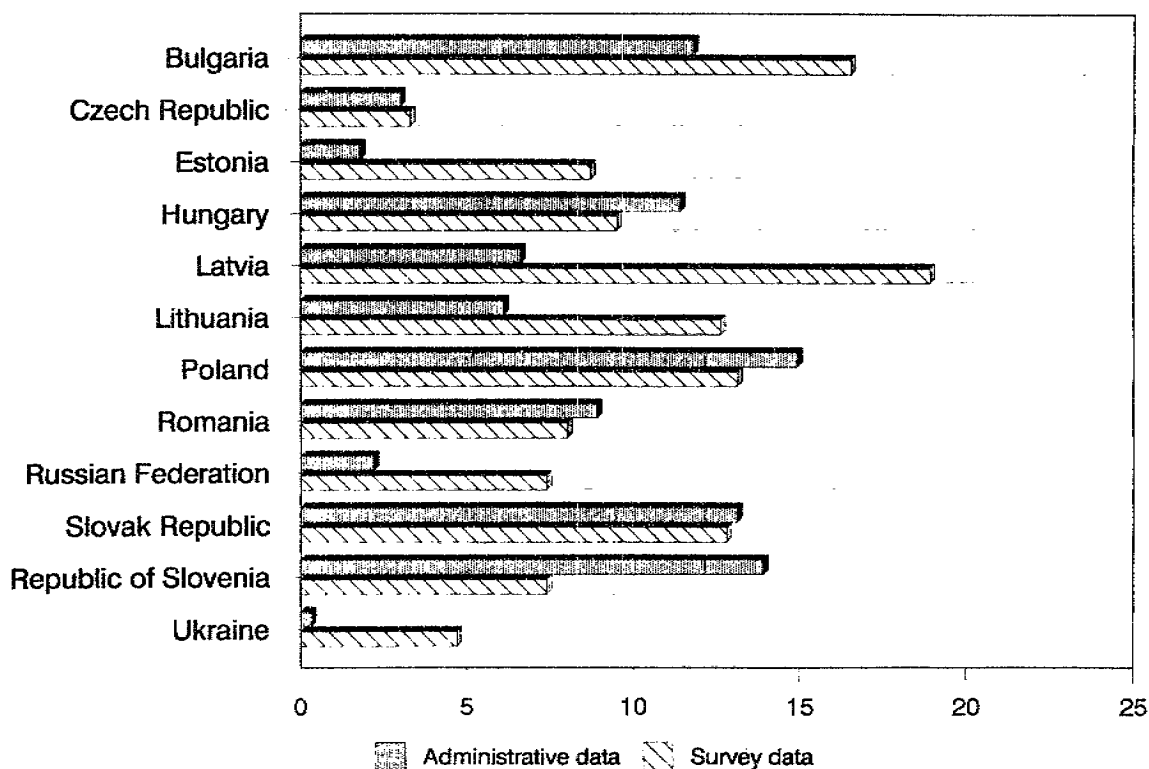
^dIbid.

^eSee, for example, M. Ferber, "Czech women in transition", *Monthly Labor Review*, vol. 117, No. 11 (Washington, D.C., 1994) p. 34.

^f*Review of the Labour Market in the Czech Republic* (Paris, OECD, 1995), p. 15.

^gSee, for instance, Robert J. Flanagan, "Wage structures in the Czech economy", *IMF Staff Papers*, vol. 42, No. 4 (Washington, D.C., 1995) p. 852.

Figure 7.8. Measures of labour market slack in selected transition economies, 1995
(Percentage of labour force)



Source: DESIPA, based on ILO data.

Poland experienced net emigration, there has been a recent increase in legal immigration there, too, with about 10,000 work permits granted to foreigners in 1995. Before 1990 such permits were all but non-existent. Another encouraging sign is the large share of well-educated and experienced professionals among these immigrants, many of whom have been exposed to market economies. This "inverse brain drain" will facilitate the transition to a market economy.⁷⁹

105. As the demand for labour declined in all of the transition economies, labour market segmentation increased, with some social and demographic groups bearing the brunt of restructuring. The break-up of oversized companies and the decline in industrial production increased the withdrawal from the labour market of older workers, typically the first and easiest target of labour shedding. In some countries the number of working pensioners was reduced after tax penalties were introduced to discourage such employment. Reduction in the participation rates of older workers, who had represented 8 to 12 per cent of total employment in many transition economies, was substantial.⁸⁰ Elsewhere early retirement schemes were introduced to reduce the labour supply. This option proved costly in terms of both lost production and pension obligations. For example, in Slovenia, early retirement did not make room for young workers, did not prevent unemployment and was counter-productive.⁸¹ Because the level of pensions in Eastern Europe used to be quite low, the loss of additional income impoverished a substantial segment of the population. How to integrate

older workers into the transition process remains a major social challenge.

4. Youth unemployment

106. The incidence of joblessness among different age groups demonstrates that young people (less than 25 years old) have been particularly hard hit. Youth unemployment—including among college and high school graduates—exceeds national averages substantially, often by a factor of two. In Bulgaria, youth unemployment in 1995 was the highest in Eastern Europe (more than 40 per cent of the country's total unemployment), followed by Poland (more than 30 per cent) and Slovakia (30 per cent) (figure 7.9, chart A).⁸²

107. The employment situation of young people can be explained by a number of factors, most obviously the deep economic crisis which reduced the number of new openings in the labour market. In many companies, hiring freezes became widespread, because they preferred to rely on attrition rather than large-scale lay-offs when having to downsize. On the other hand, the fledgling private sector was often more interested in experienced workers, including those already employed in the state sector, rather than in recruiting the unemployed or hiring recent graduates. In addition, in many transition economies the education sector has not been able to keep pace with the market's demands for new skills. As a result there has been a growing mismatch between skills provided through the education system and those required by the market.⁸³

BOX 7.4 OFFICIAL EMPLOYMENT IN POLAND: A SURVIVAL SOLUTION?

Unregistered employment is widespread in many transition economies, where millions of people work in the informal sector. Workers seek employment in the sector either because they are unable to find work in the formal sector or because they want to supplement income from other employment. Employers turn to the informal market as a source of cheap domestic or foreign labour. At the household level unregistered employment may provide a convenient and inexpensive pair of helping hands. Informal sector employment is important for the national economy because it absorbs surplus labour and reduces the Government's social expenditure. Because the sector is often conducive to crime, including tax evasion, the authorities are frequently hostile towards informal employers. Underground employment may also deprive workers of their rights and privileges since the terms of employment are primarily dictated by the employer. And only the formal sector provides funds to finance public safety nets.

It is difficult to estimate the number of people employed off the record. Periodic labour force surveys, which have been in use in Poland since May 1992, try to cover all household members above the age of 15, including those who work without a contract. Since surveys are conducted solely for statistical purposes, no answers are requested from respondents about the character of their employment contract, and there is no reason for those surveyed not to report their employment. The data obtained from the surveys thus cover workers employed in the informal economy.

To measure informal employment, the difference between employment estimated by labour force sur-

veys and employment estimated by administrative (enterprise) surveys is calculated. Additional adjustments need to be made to account for the fact that labour force surveys cover only private households, thus excluding workers who live in worker hostels, student housing or other types of housing.

Unofficial employment was estimated at 1,126,000 or 7.5 per cent of total official employment in Poland in August 1994. Estimates one year later revealed that the number of unofficially employed workers had fallen to 1,011,000 or 6.6 per cent of total official employment.

Collecting reliable information on unregistered employment is critical for policy-making at the state and municipal levels. Respondents revealed three major motives for working unofficially: insufficient incomes, lack of official jobs and high taxes on personal incomes, which discouraged workers from registering their earnings.

Almost 60 per cent of unofficial workers held more than one job. About a third of respondents worked off the record for less than a month, while more than 20 per cent of respondents worked off the record for at least four months. In terms of gender, 64 per cent of unofficial employees were men. In terms of education, although workers with all levels of education found employment in the sector, most of the jobs generated were low-paid jobs for unskilled and low-skilled workers.

Source: Malgorzata Kalaska and Janush Witkowski, *Unregistered Employment in Poland in 1995* (Warsaw, Central Statistical Office, 1996).

5. *The effect of gender on employment*

108. In the mid-1990s unemployment rates for women exceeded national averages in most countries (figure 7.9, chart B). In Romania, for example, the unemployment rate for women was twice as high as that for men.⁸⁴ Moreover, with the exception of Hungary and the Russian Federation, the share of women among the unemployed in 1995 was more than 50 per cent.

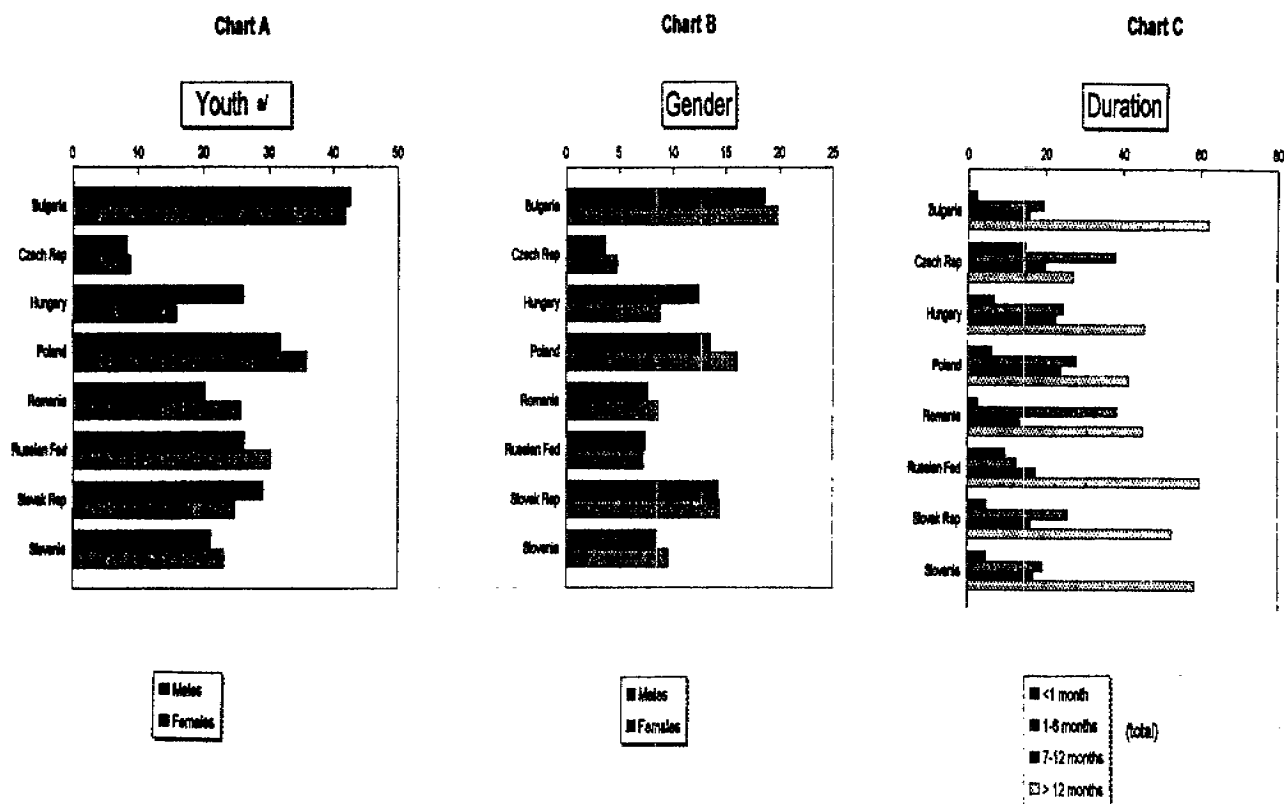
109. A large decrease in labour force participation meant in practice that women were pushed out of the labour force, even though not all ended up in the ranks of the unemployed. Female labour-force participation rates decreased in the early 1990s in all the "Vysegrad Group" of countries of Central Europe except Poland. For example, between 1989 and 1995, female participation rates decreased in the Czech Republic from 88.7 per cent to 83.6 per cent, in Hungary from 78.4 per cent to 64.9 per cent and in Slovakia from 80.5 to 71.4 per cent.⁸⁵

110. Ongoing changes in the occupational structure of enterprises often leads to redundancies in many "traditional" female occupations—typically, semi-skilled jobs. In fact, women who were made redundant greatly outnumber men who were made redundant. For example, according to a survey conducted in Hungary, segregation by sex has been common in many enterprises, leaving women workers with lower skill requirements

and fewer prospects for promotion. Under the current employment adjustments these low-skilled jobs are at risk of being suppressed or largely reformed, so women may be at higher risk of becoming unemployed.⁸⁶ At the same time, women who lose their job are much more likely than men to stay at home, rather than look for another employment opportunity. The "discouraged worker" effect is usually greater for women than for men.⁸⁷

111. Reductions in labour supply have often been achieved at the expense of women, even though such discrimination is sometimes disguised. In Ukraine, for instance, one widespread method of concealing unemployment was to encourage women to extend maternity leave for several (sometimes, two or three) years. In other instances women were making this choice themselves given the prospect of very low incomes if they returned to work, or because they were not under pressure from management to return.⁸⁸ Prolonged maternity leave (paid only for the period of time mandated by law) was used for similar purposes in the Russian Federation. Maternity leave was twice the average length in depressed industries, such as textiles and garments.⁸⁹ A growing number of employed women were also reported to be on extended maternity leave in Hungary and in other Central European countries.

Figure 7.9. Unemployment in selected transition economies, 1994-1995



Source: UN/DESIPA, based on OECD-CCET Labour Market Data Base and national statistics.

a. Less than 25 years of age. [Males] – percentage of male labour force; [Female] – percentage of female labour force.

6. Long-term unemployment

112. Long-term unemployment has been growing in all transition economies. Its persistence, rather than that of frictional joblessness, has become a powerful new factor leading to social exclusion, marginalization and deprivation.

113. Despite some recovery in the output of several Eastern European countries, the share of long-term unemployed in total unemployment grew in every country. At the end of 1995 the long-term unemployed were 31 per cent of all unemployed workers in the Czech Republic, 42 to 47 per cent in Poland and Romania, and more than 50 per cent everywhere else, including nearly 66 per cent in Bulgaria (figure 7.9, chart C).⁹⁰

114. The probability of finding work in transition economies, as in developed countries, decreases with the length of the unemployment spell (so-called “duration dependence”). As a result, in certain cases (Bulgaria is the most vivid example) the persistence of joblessness leads the unemployed to stop actively looking for jobs. Ultimately, they leave the labour force. In some countries the middle-aged unemployed (people who should be at

the peak of their working careers) represent up to one third of the long-term unemployed.⁹¹

115. Long-term unemployed and redundant workers in all transition economies include an exceptionally high proportion of women, low-educated and unskilled workers. The most vulnerable are people with the lowest skills and education. Thus in order to alleviate long-term unemployment, labour market policies should be targeted to disadvantaged groups, as well as to specific geographical areas.

7. Hidden unemployment

116. Despite visible growth in open unemployment, hidden unemployment remained a serious impediment to improving labour efficiency and productivity. A steep decline in output meant that overemployment at the enterprise level has increased, even compared with the extensive overmanning during central planning. According to the Economic Commission for Europe, in only Hungary, Poland and Slovenia was there a slight decline in excess employment over 1990-1994.⁹² In all the CIS and Baltic States, overemployment increased considerably with the

slump in production and slow changes in work organization.

117. Details highlighting hidden unemployment are difficult to come by because of the paucity of statistics. Moreover, the picture varied among countries and among enterprises within the same country. But in CIS countries labour hoarding was particularly widespread. According to data obtained from ILO labour force surveys, in the Russian Federation surplus labour (deemed to be surplus by management) at the level of the enterprise was on average 8 per cent for the industrial workforce.⁹³ However, including labour input lost because of partial and complete stoppages of production, the percentage of workers on "administrative leave" (largely, a convenient euphemism for unemployment) and the full-time equivalent measure of labour input lost because of enforced short-time working, suppressed unemployment in Russian industry was more than 28 per cent of the workforce in 1995.⁹⁴ In Ukraine the situation in 1995 was even worse: 34.4 per cent of all workers were on unpaid leave, that is, officially classified as employed, but with a low probability of recall, and a very substantial proportion (sometimes more than 50 per cent) of employees worked short-time.⁹⁵

118. The reduction of hidden unemployment has become a major policy challenge and an important element in enterprise restructuring. In many aspects this issue has political overtones, because additional inflows of the released workers can further deteriorate already strained labour markets, potentially leading to social unrest. By removing any incentives from enterprises to keep excess labour on board or strictly enforcing bankruptcy provisions, Governments in transition economies can move forward with the desired restructuring of industry. The counter-weight is that a substantial number of people may be marginalized because of growing poverty—and then increase the financial burden of supporting the new poor.

8. *Labour market policies and options*

119. While all transition economies made an explicit commitment to promoting the goal of full employment as a basic priority, specific policy options are inevitably modified by the diversity of transition experience, including the sequencing and speed of the national systemic transformation. In many countries, the process of transition itself permitted policy makers to accumulate invaluable practical experience and to obtain improved understanding of the conditions under which various employment-generating policies can work, as well as regarding the linkages between economic growth and employment promotion.

120. Whatever the specific national circumstances of transition economies may be, it is hardly possible to envision a reduction of unemployment and an increase of productive employment without balanced and sustainable economic growth. A sound macroeconomic environment that results from appropriate fiscal and monetary policies can facilitate economic growth and enhance employment promotion. However, many transition economies face a substantial reduction in purchasing power resulting from a decrease in incomes, limited growth of wages and fewer people who are gainfully employed. Since, in many instances, export markets are difficult to penetrate and exports grow only slowly, enterprises in many transition

economies face tremendous adjustment problems in the presence of insufficient domestic demand. While poor sales affect the enterprise sector in general, including large companies, they hit small and medium-sized firms particularly hard, limiting their expansion and further generation of employment. Low domestic demand has contributed to a drastic reduction of investment in most transition economies, jeopardizing economic recovery and reinforcing economic stagnation in the enterprise sector.

121. While there are no miracle solutions to the demand problem at the present stage of transformation in most countries, non-inflationary efforts to increase demand may be beneficial to the creation of an enabling environment for resumed economic growth. In this sense, a combination of measures aimed at preventing the further erosion of incomes is important not only from the social standpoint, to prevent the impoverishment and marginalization of a substantial segment of the population, but also from the standpoint of arresting the decline in domestic demand. In this context, one of the measures should aim at preventing the further decline of real wages in the budgetary sector of the economy, as well as restoring the purchasing power of pensions and other budgetary transfers.

122. In the longer run, microeconomic policies may have an equally important role for the enhancement of market demand, initially, through enterprise restructuring leading to a reduction in unit costs of production. Lower costs and an improved product mix, together with improved quality, typically permit enterprises to capture larger segments of world demand through increased exports. The success of East Asian economies, at least in part explained by a coherent export-oriented strategy and the excellent performance of domestic enterprises on world markets, shows benefits of global operations for cost reduction and the achievement of economies of scale at the enterprise level. In most transition economies, enterprises can hardly hope for sustainable success on world markets without technological upgrading and new production methods. In this context, much would depend upon the ability of enterprises to innovate and to keep in line with world productivity levels. Foreign investment, as an important source of new technology and production methods, may also enhance export performance and enterprise competitiveness, leading to job promotion. In this respect adoption at the national level of a well-thought-out and coherent industrial policy can improve a country's ability to achieve the desired outcomes.

123. The emergence and functioning of the labour market institutions, such as market-oriented social security systems and wage determination systems, along with better responsiveness and flexibility in the education and training sector regarding new patterns of labour demand, have proved their importance in providing a stable framework for unemployment prevention and employment-generating activities. Further, they are playing an increasing role in determining the most appropriate policy mix. The importance of better information about the functioning of national labour markets, including information regarding skill distribution, mobility and wage expectations, is being more appreciated in national policy formulation, and in enhancing the quality of labour market services provided at the local or national levels. At the same time, because the process of democratization

sweeping all transition economies since the end of the 1980s has powerfully affected governance and civil society, there is a widely recognized need for democratic policy-making and social dialogue that allows for participatory control of policies and institutions.

124. In designing and establishing the framework for labour market policies, many transition countries clearly drew on the long experience of developed market economies. A two-tier approach was chosen. First, legal and institutional changes were introduced and a firm legal base was established for social assistance measures for the unemployed. Following the adoption of labour laws and regulations, almost every country created a network of employment offices to implement these laws. Second, unemployment benefit schemes were adopted, and rules for access were spelled out. Similar to practices in OECD countries, the schemes determined the maximum duration of pay, the replacement ratio (the average unemployment benefit as a percentage of the average wage) and some eligibility criteria. In addition to passive measures (unemployment benefits), most countries in Eastern Europe also adopted active labour market programmes, which included training or retraining of the redundant work force, helping self-employed people to start up new businesses, providing public employment services and so on.

125. The nature and magnitude of change in the labour market and growing fiscal constraints affected both types of labour policies, forcing necessary corrections and adjustments. The average duration of unemployment has increased dramatically, making the budget burden very heavy for many countries. Therefore, one of the first major adjustments implemented in Eastern Europe was to tighten the rules enabling access to benefits. Next came a reduction in the duration of benefits. This step was motivated by empirical evidence showing that some of the unemployed were postponing their re-entry to the labour market until they ran out of entitlements.⁹⁶

126. In 1995 the unemployed in Eastern Europe could expect to receive unemployment benefits for 6 to 12 months, depending primarily on the length of their previous employment. For example, in Albania, Bulgaria, Hungary, Poland, the Russian Federation and Ukraine, the maximum duration of pay was one year; in Belarus, the Czech Republic, Estonia and Lithuania, it was six months. The replacement ratio, reduced considerably in most countries in 1991-1994, stabilized in 1994-1995, although there were some exceptions: Hungary reduced it from 34 to 31 per cent and Albania from 43 to 27 per cent, while the Russian Federation increased it from 13 to 21 per cent and Ukraine from 14 to 17 per cent.⁹⁷

127. Compensation for job loss was the largest spending item of all labour market programmes. For example, in Central European countries resources devoted to unemployment compensation ranged from 0.20 to 2.14 per cent of GDP—much larger than the 0.11 per cent of GDP spent on the next largest social-spending categories, including early retirement and public employment services.⁹⁸

128. While relatively high unemployment benefits may be financially unsustainable for a number of countries (or even socially dangerous, because they give rise to benefit dependency or “entitlement effects”, leading to a postponement of active job search), very low benefits may breed poverty and the social exclusion of redundant workers. Low benefits proved to be a powerful disincentive

to registering as unemployed (underscored by a large discrepancy in administrative and labour force survey unemployment figures in such countries as the Russian Federation and Ukraine).

129. Under conditions of economic downturn and a drastic fall in labour demand, the role of active labour market policies is inevitably limited. This conclusion has been largely confirmed by experiences of the developed countries and, later, those of the transition economies. This reason may account for a relatively insignificant part of expenditure on employment policy devoted to active programmes in these countries.

130. Obviously, economic recovery is essential for reducing labour market imbalances in the long run, thus creating a strong demand for labour. But thoughtful and more active labour market policies targeted at job brokerage, labour force training and retraining, or measures for youth can increase the turnover among the unemployed and improve the job-matching process. One of the difficulties that policy makers have been facing is that while growing unemployment requires some immediate short-term measures, these measures must be compatible with long-term policy targets, including reorganizing enterprises and using labour more productively.

131. The range of active labour market policies varies from country to country. But whatever policies are used, the paramount goal has been to reintegrate marginalized individuals (for example, long-term unemployed or older unskilled workers) into the labour market. It has been difficult to evaluate the success of these programmes, since experimental evaluations, that is, evaluations which require selection of the control and the “treatment” group before the intervention, were not conducted, and only “quasi-experimental” evaluation of some schemes, such as retraining, were completed in a few countries.⁹⁹

132. The evaluation of training and retraining programmes—one of the most widely chosen options of all active labour market policies—showed them to be not particularly successful in increasing re-employment prospects in transition economies.¹⁰⁰ Moreover, in some cases retraining workers who were already employed to enhance their skills was found to be much more effective than retraining the unemployed, whose employability did not increase.

133. Bulgaria, the Czech Republic, Hungary, Poland and Slovenia offer support to the unemployed to start their own businesses. However, scepticism remains: certain individuals are successful, but according to some experts it is unlikely that such schemes would show up any better in a rigorous outcome/cost analysis than have similar programmes in OECD countries.¹⁰¹

134. The mixed results generated from the evaluations of active measures show that unemployment benefits are important, and it is not easy to find substitutes. The transition economies may improve the effectiveness of these programmes in bringing down the unemployment rate, by focusing more carefully on disadvantaged groups, clearly identifying priorities and avoiding the temptation of a “wide-net”, which in practice may not be sustainable financially or institutionally (see table 7.13).

135. Taking into account budgetary constraints, an excessively wide range of policy steps may not be feasible. A clear definition of priorities must go hand in hand

TABLE 7.13. ACTIVE LABOUR MARKET POLICIES IN TRANSITION ECONOMIES

Policy Effectiveness and recommendations

Retraining	The probability of getting a job rises with education. Available scientific evaluations, however, do not yield positive results in terms of economic effectiveness (wages and unemployment duration effects). Often given to those who are already best able to find a job. Nevertheless, state-sponsored training may be desirable for those hurt by changes, at least on equity and political grounds. Must develop private provision.
Job matching	Inexpensive and often effective in increasing job placements, though only relevant for a fraction of job-seekers. Important for the long-term unemployed. Even temporary reductions in unemployment claimants can affect job matching by freeing employment service staff and resources for placement activities. Must allow private job exchanges to operate.
Employment subsidies	May consist of grants, interest-free loans, an interest subsidy and so on, and generally provide support to ordinary market-sector employers (notably for temporary jobs offering training to youth and school-leavers). Only minor net effects in industrial countries. Are often associated with "deadweight" losses to the extent that individuals who benefit would have found jobs anyway. Can undermine commitment to reforms. May make sense if narrowly targeted, for example in one-company towns.
Allowances (grants, loans or prepayment of benefits) to support businesses that start up	Net employment effects rarely properly evaluated. Positive effects in terms of business durability and loan repayments in some transition economies. Only apply to a small minority of workers, even in developed countries.
Public employment programmes and public support of apprenticeship	Mixed results. Rarely properly evaluated. Some positive effects of programmes carefully targeted to drop-out minorities and disadvantaged groups (like the long-term unemployed) when mixed with on-the-job training. Administratively intensive and difficult to implement outside industrialized countries.

Sources: M. Rutkowski, "Labour market policies in transition economies", *MOCT-MOST*, No.1 (Bologna, Kluwer Academic Publishers, 1996), p. 27; T. Boeri and M. Burda, "Active labour market policies, job matching and the Czech miracle", *European Economic Review*, vol. 40, Nos. 3-5 (1996), pp. 805-817; J. Micklewright and G. Nagy, "Labour market policy and the unemployed in Hungary", *European Economic Review*, vol. 40, Nos. 3-5 (1996), pp. 819-828.

with better targeting. Particular emphasis should be placed on cost-sharing between local and central authorities in implementing employment policies. The specific needs of each local labour market should be carefully identified, while better coordination and monitoring must be put permanently on the agenda.

136. One of the most obvious policy options is to improve the effectiveness of public employment services. This may include close coordination of job brokering, job counselling and better selection of the participants for active labour market programmes.

137. A relatively untested option in transition economies is greater reliance on public works programmes to generate employment. In many cases they may be preferable to passive programmes. The benefits of public works include those arising from creating public sector assets, avoiding the costs of future long-term unemployment by maintaining attachment to the labour market and reducing the psychological stress of unemployment.¹⁰² The eastern *Länder* of Germany provide a recent example of the wider use of public works programmes during transformation. While this transition from a centrally planned economy to a market economy is a special case since it

was facilitated by German reunification and subsequent transfers from the West, public works programmes, together with retraining and subsidies, helped to ease the mass unemployment that followed closures of obsolete or unprofitable enterprises.¹⁰³

138. A major policy challenge for transition economies facing persistent, widespread unemployment is to reduce high levels of joblessness without losing momentum for market-oriented transformations. This challenge includes promoting job creation in new private sector activities and strengthening the market environment for already established companies. The experience of East Asia should be studied in determining a proper balance between state intervention and market forces. On the other hand, the feasibility of import liberalization must be assessed in each specific case. According to ILO, one of the most important policy instruments for moderating the rate of job loss is selective, rather than across-the-board, and instantaneous import liberalization, coupled with selective export credits and subsidies to potentially competitive enterprises.¹⁰⁴ In doing so, however, it is important to sustain a market environment and to avoid creating perverse incentives that could delay the necessary restructuring of enterprises.

C. EMPLOYMENT AND UNEMPLOYMENT IN THE DEVELOPED ECONOMIES

139. The most striking feature of labour markets in the developed economies since the mid-1970s has been the high rate of involuntary unemployment. The developed economies had substantial success in maintaining relatively low unemployment rates in the quarter century after the Second World War—certainly in comparison with the inter-war period, but also in relation to longer-term historical experiences. Unemployment rates rose, however, following supply-side shocks and intensified inflationary pressures in the 1970s, and have remained high since, albeit with substantial cyclical fluctuations. The shift was most marked in Western Europe. In France, Germany and the United Kingdom, for example, the unemployment rate was never above 4 per cent between 1960 and 1975; with the exception of Germany in 1979 and 1980, it has not been below 4 per cent in the two decades since 1975 (figure 7.10). Japan and Sweden, the countries that have been among the most successful in maintaining low rates of unemployment, have watched their unemployment rates move upward, substantially so in Sweden. Even in countries where unemployment rates have improved during the 1980s and 1990s, such as the United States, they remain high compared with the quarter century after the Second World War. Unemployment rates' stubborn refusal to decline, especially in Western Europe, remains one of the most troubling policy issues in the developed economies this decade.

140. The increase in unemployment rates in the 1970s and 1980s was widespread throughout the developed economies. The oil price increases were followed by periods of rising unemployment (figure 7.10). The oil shocks contributed to a slowdown in economic growth and a decline in employment, as they raised costs for producers and consumers, and transferred purchasing power from oil-importing to oil-exporting economies. The oil shocks also contributed to inflation, and the ensuing anti-inflationary policies adopted in a number of countries may have pushed unemployment rates still higher.¹⁰⁵ What is not clear is why unemployment rates remained high and labour productivity growth rates remained low, even as economies became more energy efficient and oil prices fell from the levels they reached in the 1970s (figure 7.11).¹⁰⁶

141. The decline in labour productivity growth is reflected in lower growth rates of output, employment and real wages and salaries. But the decline in labour productivity growth has also meant that any increase in output requires more labour—the measured elasticity of employment growth relative to GDP growth has risen slightly since the 1970s.¹⁰⁷ Thus, particularly in countries where there has been an expansion of low-wage labour, the decline in productivity growth has been associated with some expansion of employment. This expansion has partially offset the decline in employment growth associated with lower rates of GDP growth. But there are important differences between Western Europe and the other developed economies. Countries in Western Europe have had lower GDP growth rates than other developed econo-

mies since 1973, while also having lower employment elasticities.

142. During the first half of the 1990s, employment growth slowed down somewhat relative to GDP growth, following a recession at the beginning of the decade. In some countries, such as the United States, employment growth was slower and took longer to recover than had been typical of business cycle expansions, leading some observers to describe the recovery as one of "jobless growth". But by 1995 and 1996 employment growth was strong, and the aggregate unemployment rate fell to its lowest point since the peak of the 1980s expansion, and substantially lower than that in the 1970s. In contrast, economies such as France and Germany continued to have difficulty successfully stimulating both GDP growth and employment growth.

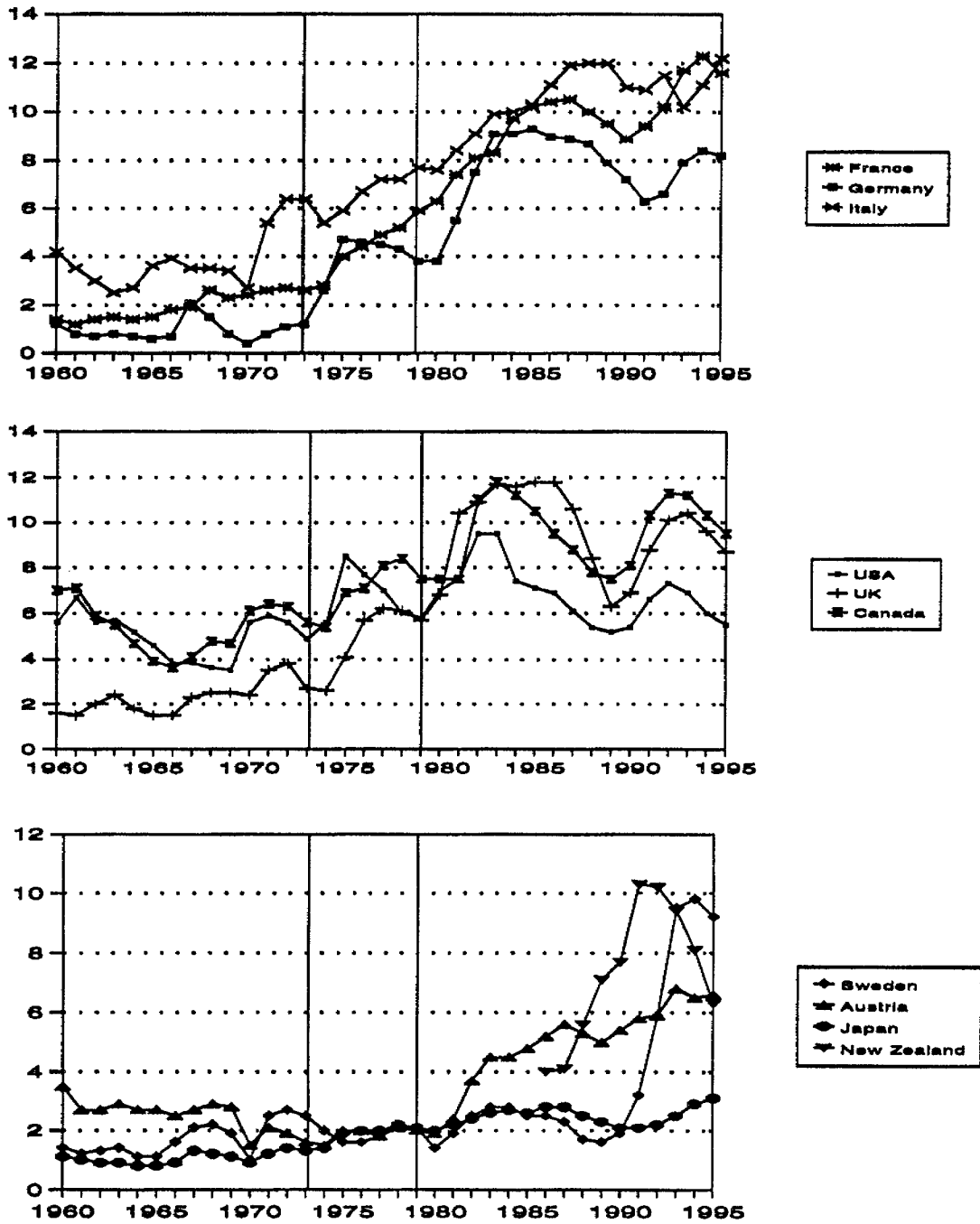
143. The annual percentage growth of the labour force was lower in 1974-1995 than in 1960-1973 in a number of countries, including Australia, Canada, Japan, New Zealand and the United States. In all of these countries the growth rate of the working-age population slowed substantially, which was to some extent a reflection of the end of the "baby-boom" generation's entry into the labour force (table 7.14).

144. This decline was partially offset by an increase in labour force participation rates, especially in Canada and the United States. In Western Europe labour force growth increased in 1974-1995, while remaining substantially below that of the other developed countries; the largest increases occurred in Germany, Ireland, Italy and Portugal.

145. In all countries for which data are available, labour force participation rates for women have risen. In Western Europe as a whole labour force participation rates have stayed fairly stable—increases in the female participation rate have been offset by declines in the male participation rate. The developed economies also experienced a slowdown in the rate of employment growth, reflecting the generally slower growth of aggregate economic activity. Employment growth over the past two decades has been fastest in Australia, Canada, Japan, New Zealand and the United States—and noticeably slower in Western Europe.

146. The lower productivity growth rates in the developed economies since the early 1970s have contributed to the lower growth rates of real earnings. In the United States, for example, average real wages have stagnated, with average compensation growing slightly when the value of non-wage benefits are included. Average real wages have grown in other developed economies, but at a rate substantially lower than that prior to 1973. In addition, the distribution of labour incomes has widened in many developed economies (table 7.15). This increase in the gap between the top and bottom of the wage distribution is most marked in the United States, where inequality increased as the real wages of those towards the top of the distribution grew while real wages of those at the bottom fell, and the United Kingdom, where real wages at the top grew far more rapidly than real wages at the bottom.¹⁰⁸ During the 1990s the tendency towards growing wage and salary inequality moderated in many countries, although it is too early to tell if this moderation represents the end of a period of rising inequality.¹⁰⁹

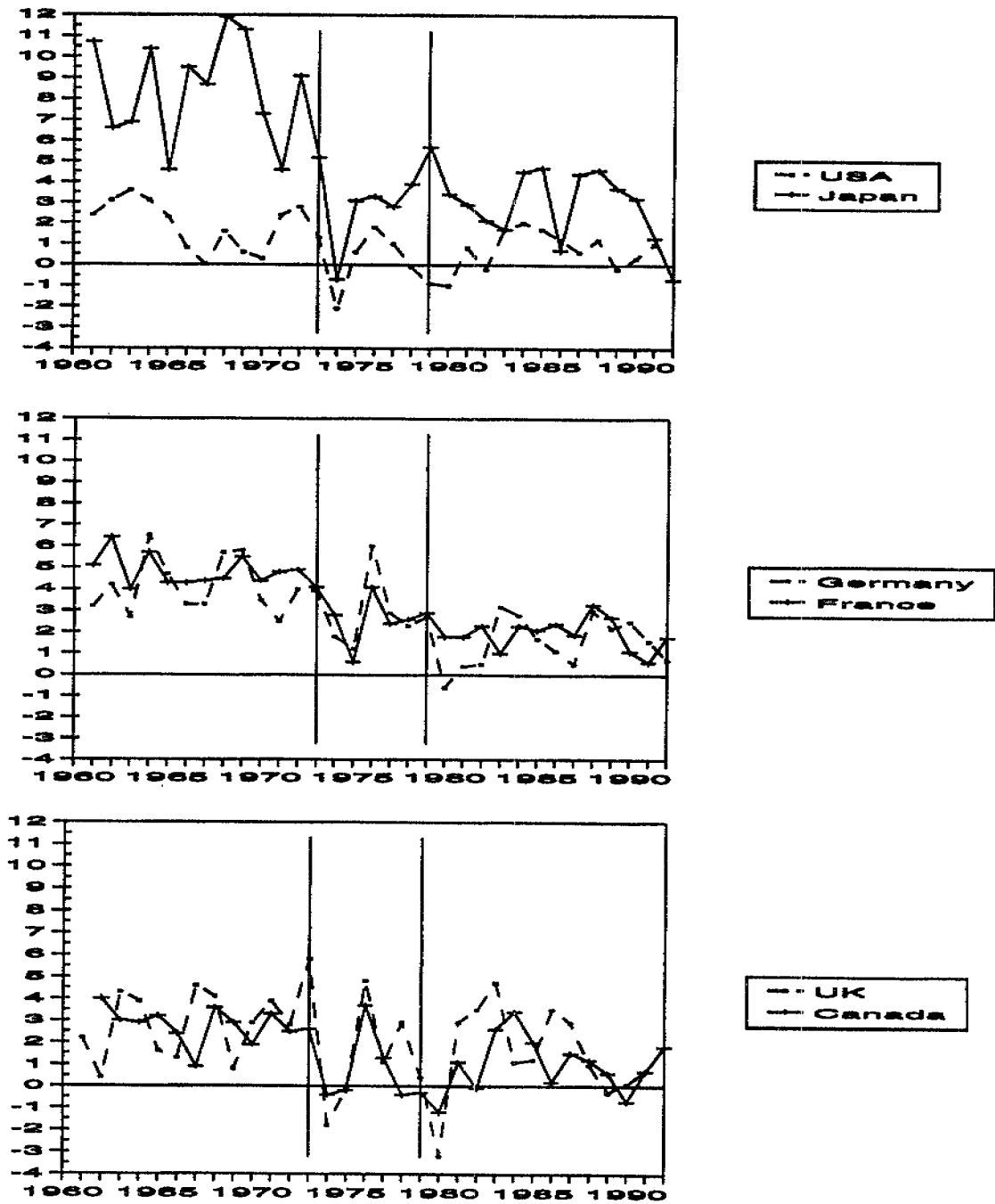
Figure 7.10. Unemployment rates in selected developed economies



Source: ILO, *Yearbook of Labour Statistics* (Geneva, ILO, various years); OECD, *Employment Outlook* (Paris, OECD, 1996); supplemented by national sources.

Note: Vertical lines denote oil price rises of 1973 and 1979.

Figure 7.11. Labour productivity growth rates in selected developed economies



Source: UN/DESIPA, based on OECD International Sectoral Data Base.

Note: Vertical lines denote oil price rises of 1973 and 1979.

TABLE 7.14. EMPLOYMENT GROWTH, WORKING-AGE POPULATION GROWTH AND LABOUR-FORCE PARTICIPATION RATES IN SELECTED DEVELOPED ECONOMIES AND REGIONS

Country or region	Employment growth ^a		Working age population growth ^a		Labour-force participation rates		
	1963-1973	1974-1995	1960-1973	1974-1995	1960	1973	1995
Australia	2.4	1.6	2.2	1.6	67.5	69.9	74.3
Canada	3.3	1.9	2.3	1.5	60.5	67.6	76.1
Japan	1.3	0.9	1.7	0.7	75.7	71.7	76.5
New Zealand	2.2	0.9	2.0	1.2	63.1	64.6	65.6
United States	2.0	1.8	1.7	1.1	64.5	66.0	77.5
European Community 12 ^b	0.3	0.2	0.6	0.6	67.5	65.5	65.7
Former European Free Trade Association	0.5	0.3	0.7	0.5	73.8	72.4	74.0

Source: *World Employment 1996/97: National Policies in a Global Context* (Geneva, International Labour Office, 1996) tables 2.1, 2.2.

^aAverage annual percentage change.

^bExcluding the eastern *Länder* of the former German Democratic Republic.

TABLE 7.15. TRENDS IN THE DISTRIBUTION OF WAGE AND SALARY INCOME IN SELECTED DEVELOPED ECONOMIES (90/10 ratio)

	1980	1985	1990	1994	Percentage change, 1980-1994
Australia					
Males	2.72	2.61	2.72	2.84	4
Females	2.54	2.64	2.62	2.54	0
Canada					
Males	3.46	4.03 ^b	3.99	3.77	9
Females ^a	3.73 ^a	4.24	3.99	4.01	8
France					
Males	3.37	3.35	3.45	3.43	2
Females	2.72	2.64	2.86	2.94	8
Germany ^c					
Males	2.40 ^a	2.36	2.31	2.25	-6
Females	2.64 ^a	2.51	2.40	2.26 ^d	-14
Italy					
Males	2.33	2.30 ^e	2.17 ^f	2.64 ^d	13
Females	2.66	2.34 ^e	2.17 ^f	2.80 ^d	5
Japan					
Males	2.61	2.77	2.84	2.77	6
Females	2.17	2.28	2.30	2.24	3
Sweden					
Males	2.11	2.13	2.07	2.20 ^d	4
Females	1.65	1.74	1.71	1.82 ^d	10
United Kingdom					
Males	2.51	2.80	3.11	3.24	29
Females	2.34	2.49	2.86	3.00	28
United States					
Males	3.26	3.73	3.96	4.28	31
Females	2.92	3.35	3.67	4.02	38

Source: UN/DESIPA from OECD data.

Note: 90/10 refers to the ratio of the earnings of the ninetieth percentile worker to the earnings of the tenth percentile worker.

^a1981.

^b1986.

^cExcluding the five eastern *Länder*.

^d1993.

^e1984.

^f1989.

1. Where the jobs are

147. In the developed economies employment is increasingly concentrated in service-sector activities, and in occupations that are classified as services, even if they occur within manufacturing or primary product industries, such as marketing, legal or financial activities. The share of agricultural, production and transport workers in total employment in the United States fell from 39.3 to 29 per cent between 1970 and 1991, from 40.4 to 29.9 per cent in Canada and from 56 to 41.7 per cent in Japan. A similar shift occurred in Western Europe after 1984 (table 7.16). The growth rates of employment in these occupational categories were negative over the period. The occupational categories that grew most rapidly were professional, technical and managerial.

148. The growth of employment in service activities reflects a number of long-term trends in the developed economies. Primary product industries have become less important as generators of employment for some time. More recently, employment growth in manufacturing industries has been declining in relative importance, and appears to be declining absolutely in many developed economies. These changes reflect, in part, productivity gains in agriculture and manufacturing that permit output to grow more rapidly than employment, and contribute to

rising per capita income. In turn, countries with high and rising income levels tend to expand their demand for services—entertainment, household help, business services—more rapidly than their demand for manufactured goods or primary products. At the same time that professional and managerial employment has expanded, growth rates among sales and clerical workers, and workers in services establishments such as restaurants, have been high in many developed economies. The demand for high-end services is driven by productivity increases and expanding markets, as for example, in the computer industry, where rapid technological change permits cost reductions, quality improvements, growing markets, expanding employment and relatively high wages.¹¹⁰ Low-end services, on the other hand, have low productivity growth, and employment growth is predicated on maintaining low wages. In some instances low wages may generate incentives that foster employment growth at the expense of capital investment and organizational change, thereby reducing the scope for future productivity gains.¹¹¹

149. The growing importance of services occupations may also be related to changes in the organization of production that affect employment relations within firms. In response to a much more competitive environment, many firms have sought to rationalize their operations—

TABLE 7.16. CHANGES IN THE OCCUPATIONAL COMPOSITION OF EMPLOYMENT IN SELECTED DEVELOPED ECONOMIES AND REGIONS (Percentage)

Country or region	Share in total employment ^a			Change in share 1970-1991
	1970	1984	1991	
Canada^b				
Professional and managerial . . .	20.2	27.1	31.7	11.5
Clerical, sales and services . . .	29.3	40.3	39.4	10.1
Agricultural	6.5	5.4	4.4	-2.1
Production and transport ³ . . .	3.9	27.1	24.5	-9.5
Japan				
Professional and managerial . . .	8.4	12.9	15.5	7.1
Clerical, sales and services . . .	37.9	42.3	42.4	4.5
Agricultural	17.3	8.7	6.7	-10.6
Production and transport	38.7	36.7	35.0	-3.7
United States				
Professional and managerial . . .	24.7	26.7	29.8	5.1
Clerical, sales and services . . .	36.0	40.5	41.3	5.3
Agricultural	4.0	3.4	3.0	-1.0
Production and transport	35.3	28.5	26.0	-9.3
Twelve European countries^c				
Professional and managerial . . .	..	18.0	19.8	1.8 ^d
Clerical, sales and services . . .	..	38.7	40.4	1.7 ^d
Agricultural . . . . .	..	7.8	5.1	-2.7 ^d
Production and transport . . . .	..	34.2	32.2	2.0 ^d

Source: *World Employment 1996/97: National Policies in a Global Context* (Geneva, International Labour Office, 1996), table 2.7.

^aTotals may not add to 100 due to some workers being not classifiable.

^bData are for 1973, not 1970. Change in share relates to 1973-1991.

^cAustria, Belgium, Denmark, Finland, Germany, Greece, Ireland, Netherlands, Norway, Portugal, Spain and Sweden. Data for 1970 and 1984 refer to former West Germany; data for 1991 include the eastern *Länder*.

^d1984-1991 for the 12 countries.

and have become "leaner" and more competitive in the process. These changes have three sources. One is technical change that expands the use of capital and certain categories of skilled labour. In a number of manufacturing and service industries, including durable goods manufacturing, publishing and banking, the greater use of computers and computer-related technologies has, in some cases, led to a reduction in labour requirements.¹¹²

150. A second source of firm-level innovation is organizational change that introduces greater flexibility in the employment of both capital and labour. Lean production techniques, originating in Japan in the 1950s, have spread to other developed countries, and even to some developing countries. Lean production emphasizes just-in-time inventory management with a drastic reduction in materials on hand, greater flexibility within production processes with an enhanced emphasis on the quality of output, and more autonomy to workers.¹¹³

151. A third factor pushing firms to alter employment relations is change in international competitive conditions which lead some firms to shift key elements of production out of developed-country locations, often retaining only certain managerial and administrative functions in the home country. One result of these changes is that services activities within manufacturing and primary products industries have grown in importance. Thus, managerial activities, such as marketing, finance, legal and supervisory activities, have become more important sources of value added in many non-service industries. In some instances this change has led to greater utilization of service occupations within firms; in others, contracting out has become the rule, as shown by the expansion of law firms, accounting firms, advertising agencies, business consulting firms, import-export specialists and so on.

152. The new environment has also changed worker-management relations.¹¹⁴ The share of the labour force represented by unions, as well as the bargaining strength of unions, has declined in many countries, partly because of the shift away from manufacturing. In addition, subcontracting, whether domestic or foreign, can involve a shift from union to non-union firms; inward foreign direct investment is also often found in non-union operations. Traditional modes of employment relations are being altered. The lifetime employment system in Japan, found in the largest firms and in government, is coming under pressure, as intensified international competition, a higher value of the yen and slower GDP growth is pushing firms to look more closely at their labour practices.¹¹⁵ Japanese firms are increasing their use of part-time and temporary workers, and beginning to utilize explicit, fixed-length contracts in some professional appointments.¹¹⁶ In other instances competition-driven strategies have focused more on cost minimization than on technological or organizational innovations, leaving workers in a weaker position with respect to wage gains and workplace protections.¹¹⁷ The expansion of supervisory activities may be evidence of attempts by firms to impose stricter cost controls and work-force discipline on large organizations.¹¹⁸

153. The debates on the employment impacts of these changes, especially in the United States, Japan and some countries in Western Europe, have focused on the effects of "downsizing" and "hollowing out", and have highlighted numerous examples of groups whose employment

situations have been drastically altered by such firm-level changes. More aggregative evidence, however, has not yielded a clear picture. In Japan, for example, the hollowing out phenomenon is not likely to be large enough to significantly affect the level of unemployment.¹¹⁹ A number of firms that have been downsized and operate with reduced labour requirements have become more competitive and are better poised for future growth in output and employment. Examples can be found in the auto industry in both the United Kingdom and the United States, where domestic producers collaborating with foreign transplants have created a more efficient industry, compared with that of the 1970s and 1980s.¹²⁰ In other instances, downsizing has had little or no effect on a firm's competitive position.

154. Downsizing has affected primarily managerial and professional workers, and semi-skilled and skilled production workers. These groups of workers had previously anticipated careers that were relatively stable. With income distribution widening in some countries, greater instability in career prospects also implies greater uncertainty as to income prospects. Thus employees who are forced to shift jobs or careers may find themselves with substantially reduced lifetime income prospects. Even if downsizing has little impact on aggregate unemployment, it may affect people's attitudes towards their future well-being.

155. The expansion of employment in services and the relative, and in some cases absolute, decline of employment in manufacturing is frequently cited as a source of the slowdown in productivity growth in the developed economies. Service activities are thought to have little scope for gains in productivity. An increase in the relative importance of services in an economy, then, would exert a drag on productivity growth and, consequently, real incomes, in the economy as a whole. In many service occupations, such as sales and clerical work, productivity gains are difficult to achieve, and these occupational categories tend to receive relatively low wages (table 7.17). In part, however, this argument reflects a problem of measurement. Most government services are not sold on markets and do not have a price—therefore, there is no way to measure how much they add to output beyond their production costs. Research and development activities can generate substantial external benefits, often over a considerable period of time. Some of the contribution to productivity improvement from research and development takes the form of knowledge that is widely available and is not priced, even though it may show up in the form of productivity gains elsewhere in the economy.

156. Services, however, do not function in isolation. As with all productive inputs, they contribute to output depending on how they are combined with other inputs. Research and development, when combined with manufacturing and marketing resources, can make substantial contributions to output growth. For example, the linking of technical advances in computers with the writing of software has been behind the rapid growth of this industry. Software is often customized to conform to the hardware configurations of a particular enterprise, creating an imbedded linkage between goods and services. Moreover, a considerable amount of software is either written or modified within an enterprise—another example of an input that has no market price but can improve productivity.

TABLE 7.17. CONCENTRATION OF LOW-PAID EMPLOYMENT IN SERVICES OCCUPATIONS IN SELECTED DEVELOPED COUNTRIES

Occupation	Australia 1995	Austria 1993	Canada 1994	France 1995	Germany 1994	New Zealand 1994/95	Switzerland 1995	United Kingdom 1995	United States 1994/95
Professional/ technical	0.3	0.3	0.6	0.2	0.4	0.4	0.4	0.2	0.3
Managers	0.7	0.1	0.6	0.1	0.0	0.5	0.2	0.3	0.4
Clerical	0.9	0.7	1.4	0.5	0.9	0.7	1.0	1.5	1.2
Sales . . . . .	..	1.8	1.3	3.0	1.7	2.5	..	2.0	1.1
Personnel services .	1.5	2.1	1.9	2.9	2.0	1.9	2.9	2.0	2.1

Source: *OECD Employment Outlook* (Paris, OECD, July 1996), table 3.2, part C, p. 74.

Note: Concentration is the incidence of low-paid employment in

157. When combined with communications technologies, entertainment services can reach wider audiences, which explains why entertainers and athletes are able to command high and rising incomes, even though their activity has not changed. Similar considerations may apply to the considerable income growth of corporate executives and many professionals—because markets have become more global, their activities have a longer reach.¹²¹

2. Where the workers are

158. The main trends in the labour forces of the developed economies include a decline in the labour force participation, and an increase in unemployment rates, among the young, and a substantial increase in the labour force participation of women, along with a decline in the labour force participation of men.

159. Employment, labour force participation and unemployment patterns among the young (usually considered to be under age 25) have raised concern in a number of developed economies. From the 1980s to the mid-1990s employment and participation rates declined, especially for young men, while unemployment rates have remained high in most developed economies. While the decline in employment and participation is partly the result of greater educational attainment, which reduces the time young people spend in the labour force, the absence of significant growth in the demand for young people's labour is the primary cause of their relatively weak performance.¹²²

160. For a number of developed countries, including Australia, Belgium, France, Italy, Japan, the Netherlands, Norway, Sweden, the United Kingdom and the United States, youth unemployment rates are typically twice or greater the unemployment rates of prime age adults.¹²³ Between 1979 and 1994 youth unemployment rates increased in almost every developed economy, the exceptions being Denmark, for young women, and the Netherlands. Changes in youth unemployment rates do not appear to be linked with the unemployment rates of those over 25, and appears to be of shorter average duration. Young women tend to have greater participation rates and lower unemployment rates than young men, reflecting overall improvements in women's labour market position in most developed economies.

161. The youth labour supply has not increased as rapidly in recent years as in earlier periods because of demographic changes and declines in participation rates. Real earnings, however, have not increased relative to

each occupational category divided by the economy-wide incidence of low-paid employment. Low-paid employment is defined as two thirds of the median wage and below.

those of adult workers, suggesting that the demand for young workers has been weak. Employment of young workers tends to be concentrated at the low-wage end of the services sector; the general shift of output away from manufacturing may have removed or reduced an important source of employment for young workers. These shifts may also have intensified labour market competition between young workers and those over 25, as labour-shedding in manufacturing may have forced more adult workers to seek lower-end service sector employment.

162. Employment among young people is often a step in the transition from school to full-time participation in the labour force. Young people are likely to move between work and school, and exhibit a high degree of mobility among jobs and across regions. It might be expected, then, that their participation and employment rates would be lower than those of adults over age 25. At the same time, labour force experience is an important source of human capital acquisition. Especially for young people who receive little or no advanced education, poor or erratic employment experiences are often precursors to similar employment and earning experiences later in life.¹²⁴ Also, young people who come from homes where at least one adult is employed tend to have more stable employment records than individuals who come from homes where the adults are unemployed. Enhancing employment options for young people could be one of a set of policies aimed at making long-term improvements in overall labour market performance in developed economies.

163. A second important feature of employment growth in the developed economies has been the substantial rise in women's employment (table 7.18). Except for Denmark and Finland, where the labour force participation rates of men and women were within four percentage points of each other in 1993, men's labour force participation remains substantially higher than that of women in the countries where comparable data are available. But that gap has narrowed. In many of these countries the labour force participation rates of men have fallen, but by less than the amount by which women's labour force participation has risen. Thus overall labour participation rates have grown. The contrasting behaviour of men and women reflects the extensive growth of service industries, in which women's employment has been heaviest, and the slower growth, or decline, of manufacturing industries, which have traditionally employed more men. At the same time, firm-level rationalizations in manufacturing industries may have affected men more than women,

TABLE 7.18. LABOUR FORCE PARTICIPATION RATES OF MEN AND WOMEN IN SELECTED DEVELOPED COUNTRIES

<u>Country</u>	<u>Men</u>		<u>Women</u>	
	<u>1973</u>	<u>1993</u>	<u>1973</u>	<u>1993</u>
Denmark	89.6	82.0	61.9	78.3
Finland	88.1	79.3	62.6	75.7
France	85.2	74.5	50.1	59.0
Germany^a	89.6	78.6	50.3	61.4
Italy	85.1	74.8	33.7	43.3
Japan	90.1	90.2	54.0	61.8
Norway	80.0	77.6	63.6	70.0
Spain	92.9	74.5	33.4	42.8
Sweden	83.0	80.8	48.5	58.9
United Kingdom	93.0	84.0	53.2	65.3
United States	86.2	84.9	51.1	69.1

Source: ILO, World Employment 1996/97: National Policies in a Global Context (Geneva, ILO, 1996), table 2.2.

^a Data for 1993 include the eastern Länder.

especially in older age groups. This process may affect women more in the future, as service industries also undergo rationalization.

164. While there remains a substantial income gap between men and women with similar skills and experience, performing similar jobs, this gap has narrowed. In the United States, for example, the median hourly real wage for women relative to that for men rose from 65 per cent in 1973 to 78 per cent in 1993.¹²⁵ In most countries, the distribution of wages and salaries among women is more equal than that among men (table 7.15). But the degree of inequality, and changes in inequality over time, tend to be more similar for men and women within a country than across countries. This suggests that national wage-setting institutions are powerful influences on wage and salary determination for both men and women.¹²⁶ As women have become more fully integrated into the labour force, their experience with employment and unemployment more closely mirrors that of men. In the United States until the 1980s, women's unemployment rates were considerably higher than those of men, reflecting the use

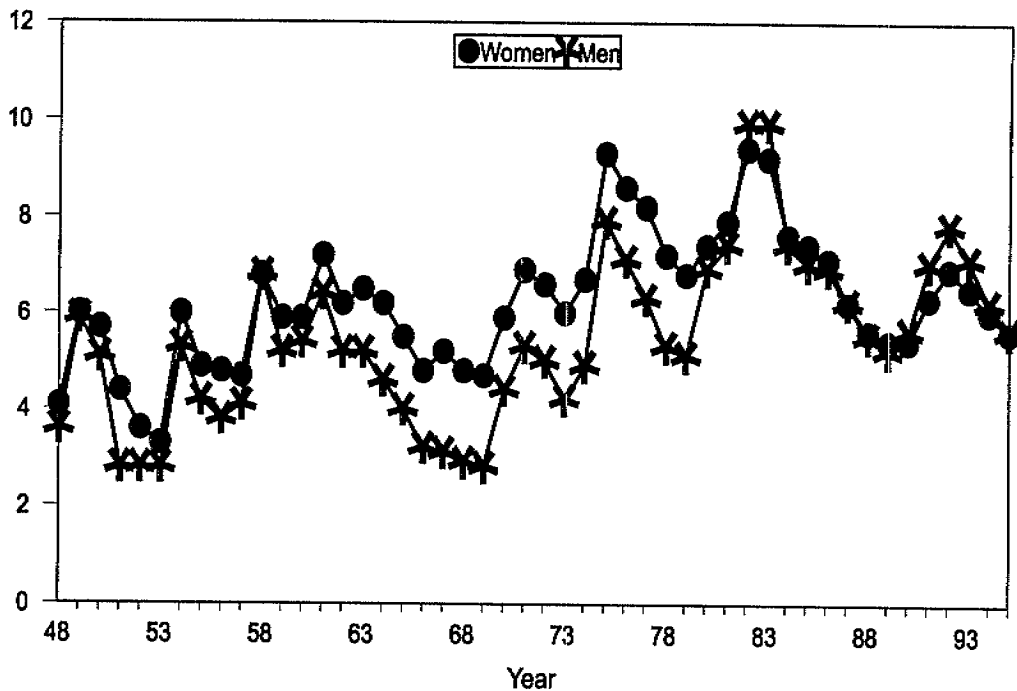
of women as a contingent labour force on the part of many employers and a weak attachment to the labour force on the part of many women. More recently, women's unemployment rates have been lower than men's and have taken on a similar cyclical pattern (figure 7.12). The more recent pattern reflects the more "regular" nature of women's employment, as well as the growing tendency to rationalize service sector activities.

3. *Behind the unemployment numbers*

165. A country's unemployment rate is an important indicator of how successful it is in employing its labour force. But the dichotomous choice between employment and unemployment does not fully capture the range of outcomes emanating from a dynamic labour market. There are a variety of solutions that emerge when an economy is unable to fully employ its adult population. Additional measures of how labour is used can provide important information regarding the functioning of labour markets in developed economies.

166. Over the past two decades the share of total

Figure 7.12. Unemployed rates for males and females, United States



Source: *Economic Report of the President* (Washington, D.C., U.S. Government Printing Office, various years).

employment that is part-time has increased (table 7.19). In 1995, 10 developed economies employed more than 20 per cent of their labour force part-time. The existence of part-time employment can be evidence of labour market flexibility, in that it allows individuals to align their work requirement more closely with their personal needs, such as child care or education. Spells outside of the labour force may be an element of the frictions inherent in a market economy, as individuals need time to obtain re-training, or move to a new location, in response to changing patterns of economic activity. However, many people work part-time out of necessity, not choice, and would prefer full-time work. A substantial share of part-time employment is involuntary—the result of companies seeking to reduce their labour costs, and employees having few alternatives.

167. Between 68 and 87 per cent of part-time workers in the developed economies are women. The growth of part-time work may reflect both a greater sensitivity on the part of employers to workers with child-care responsibilities, as well as a continuation of women's role as contingent workers. Part-time work has been made more feasible by major technical advances in communications and information processing, although the long-term importance of such phenomena as "telecommuting" has yet to be verified.¹²⁷

168. Temporary employment accounts for up to 10 per cent of wage and salary employment in some developed economies—their incidence is rising in some countries and falling in others (table 7.19). Definitional differences, however, make cross-country comparisons difficult.¹²⁸ In general, temporary employment refers to casual or short-term, fixed-contract jobs, often obtained through an agency specializing in temporary help placement. Temporary workers may work full time for a period

of time, then not work until they accept or are placed in another job. As in the case of part-time employment, temporary employment can improve the fit between job requirements and the varying needs of members of the labour force. Women and younger workers tend to be overrepresented among temporary workers relative to their share of the labour force. The primary motive for temporary employment, however, is derived from firms seeking to reduce their labour costs and increase their flexibility in managing human resources in response to intensified price competition and rising fixed costs of labour.¹²⁹ Thus a significant portion of temporary employment is likely to be involuntary. As with part-time employment, temporary jobs offer lower levels of ancillary benefits and fewer employment rights than full-time employment.

169. Part-time and temporary employment allow firms greater flexibility in allocating labour time and controlling labour costs. There have been a number of proposals to make such practices more formal, in order to share working hours and reduce unemployment.¹³⁰ In Germany shorter working hours and some job sharing was agreed on in labour-management negotiations begun in 1985, and explicitly adopted by some companies, most notably by Volkswagen in 1994. In 1984-1989 reductions in standard hours of work in manufacturing were associated with a small increase in employment and hourly earnings, keeping monthly earnings stable.¹³¹ There is also some evidence that the decline in hours was associated with a fall in output. One of the issues regarding work sharing is the impact it has on capacity utilization and investment demand. To the extent that shorter hours lead to lower utilization, work sharing could raise capital costs and depress output.¹³² At the same time, the success of any work sharing scheme may depend on the degree of expansion of the economy as a whole.

TABLE 7.19. PART-TIME AND TEMPORARY EMPLOYMENT IN
SELECTED DEVELOPED COUNTRIES
(Percentage of total employment)

Country	Part-time employment					Temporary employment ^a 1993
	1973	1979	1993	Women's share 1995	1983	
Australia	11.9	15.9	24.8	74.4	..	..
Canada	9.7	13.8	18.6	68.8	..	..
Denmark . . . . .	..	22.7	21.6	73.3	12.5 ^b	10.7
France	5.9	8.1	15.6	82.0	3.3	10.0
Germany ^c	10.1	11.4	16.3	87.4	9.9 ^b	10.2
Iceland . . . . .	..	..	30.7	78.6	..	..
Italy	6.4	5.3	6.4	70.6	6.6	5.8
Japan	13.9	15.4	20.1	70.1	10.3	10.8 ^d
Netherlands . . . . .	..	16.6	37.4	73.6	5.8	10.0
New Zealand	11.2	13.9	21.2	75.7	..	..
Norway	23.0	27.3	26.5	80.8	..	..
Sweden . . . . .	..	23.6	24.3	80.1	..	..
Switzerland . . . . .	..	..	28.3	82.7	..	..
United Kingdom	16.0	16.4	24.1	82.3	5.5	5.7
United States	15.6	16.4	18.6	68.0	..	..

Source: OECD Employment Outlook (Paris, OECD, July 1996), table E; World Employment 1996/97: National Policies in a Global Context (Geneva, International Labour Office, 1996), table 2.6.

^a Share of wage and salary employment.

^b 1984.

^c Data for 1993 and 1995 include the eastern Länder.

^d 1989.

170. Discouraged workers—those not employed and not seeking employment—are not considered part of the labour force, and therefore are not counted as either employed or unemployed. Many of these workers, however, have suspended their job search because of extremely poor prospects; they would re-enter the labour force if employment prospects were brighter.¹³³ Of course, some workers participate in the informal economy, earning income “off the books”, while reporting themselves as unemployed or out of the labour force. Some may be eligible for retirement or other safety net benefits; indeed, firms have offered early retirement benefits as a component of downsizing. Short-term changes in the measured labour force stemming from the exit and entry of discouraged workers often makes it difficult to interpret the economic significance of monthly or quarterly unemployment rate data.

171. Research at the United States Department of Labor has attempted to quantify the effects of involuntary, part-time employment and discouraged workers.¹³⁴ In nine developed economies rates of underutilization are higher than rates of unemployment, and in some, especially Italy, Japan and Sweden, the differences are considerable (table 7.20). Also, when underutilization rates are compared across countries, differences narrow—the gap between Western European and other economies is not as great as when the unemployment rate is used as the measure of comparison.

4. Unemployment, inequality and the structure of labour markets

172. In the two decades since the first oil shock of the early 1970s, most developed economies have experienced high unemployment, slowly growing productivity, slowly

growing or stagnating real wages, and stable or widening wage gaps. These outcomes are generally seen as inadequate, especially when compared with the outcomes attained prior to the 1973 oil price shock. A number of hypotheses have been put forward to explain these differences. The most widely discussed are globalization, skill-biased technical change and rigidities in labour market institutions.

173. The globalization explanation comes as declining costs in transportation and communications and a lowering of national barriers to the movement of final products, productive inputs and finance have stimulated international economic activity. Both international trade and foreign direct investment (FDI) have grown rapidly in recent years, often outpacing the growth of GDP.¹³⁵ The expanding role of developing-country producers in world markets, especially in manufacturing, has stimulated discussion as to whether intensified international competition has undermined the high-wage, high-employment role of manufacturing industries in the developed economies.

174. Numerous empirical studies have been conducted, but have not achieved a consensus.¹³⁶ One problem with the globalization argument is that trade remains small relative to GDP in most developed economies. Indeed, the fastest growing activities in developed countries are services, many of which are largely non-tradeable. Moreover, the bulk of trade and FDI flows occur between developed economies. The restructuring of the automobile industries in North America and Western Europe largely stems from intensified competition through trade and FDI with Japanese firms, not competition from low-

TABLE 7.20. ALTERNATIVE UNEMPLOYMENT INDICATORS FOR SELECTED DEVELOPED COUNTRIES, 1983-1993
(Average rates for available years)

<u>Country</u>	<u>Years</u>	<u>U^a</u>	<u>U1^b</u>	<u>U2^c</u>	<u>U3^d</u>
Australia	1983-1993	8.6	11.2	12.4	5.3
Canada	1983-1993	9.8	12.3	13.0	4.6
France	1983-1993	10.0	12.3	12.7 ^e	8.1
Germany ^f	1985-1993	6.2	6.6	n.a.	5.0
Italy	1986-1993	8.0	10.2	15.9	7.3
Japan	1984-1993	2.4	3.3	7.3	1.2
Netherlands ^g	1983, 1985 1987-1991	9.4	11.7	12.4	7.6
Sweden	1987-1993	3.6	6.7	7.5	1.7
United Kingdom	1983-1993	9.9	11.7	12.3	7.5
United States	1983-1993	6.8	9.2	10.1	2.2
Dispersion ^h		0.36	0.32	0.24	0.52

Source: Constance Sorrentino, "International unemployment indicators, 1983-93," *Monthly Labor Review*, vol. 118, no. 8 (August 1995), table 2.

Notes: n.a. - not available.

- a Unemployment rate conventionally defined.
- b U plus one-half of part-time job seekers and one-half of persons working part-time for economic reasons added to numerator, less one-half of the part-time labour force from the denominator.
- c U1 plus discouraged workers added to both numerator and denominator.
- d Long-duration unemployment - persons unemployed 13 weeks or longer.
- e 1989-93.
- f Includes eastern Länder after 1991.
- g 1983, 1984, 1985, 1987-1991
- h Dispersion is the standard deviation divided by the mean.

wage, developing-country producers. Nonetheless, a number of developing-country producers have made inroads in developed-country markets, while at the same time, transnational corporations from developed economies appear to be making greater efforts to integrate and rationalize their operations on a regional or global scale.¹³⁷

175. Trade and FDI are activities for which benefits flow in both directions. FDI, for example, often stimulates trade, in that the establishment of production facilities in host countries can lead to an increase in exports to that country, as well as an increase in imports resulting directly from the offshore production. There is no necessary reason why the jobs lost because of rising imports should be greater than the jobs gained from rising exports. The problem is that job gains and losses will not be matched; they are likely to occur in different firms, perhaps in different industries, sectors and regions, and possibly among different occupational groups. Thus globalization, as with all types of economic change, may generate significant disruptions, even if the aggregate effects are small.

176. Increased trade, FDI and financial flows have made it more difficult for Governments to achieve their policy objectives, and globalization may have contributed to higher unemployment to the extent that this objective has suffered relative to others. In addition, labour migration has grown in some countries because of globalization. Indeed, immigration has been cited as a source of higher unemployment; available research, however, has not affirmed a significant role for immigrant labour in high unemployment or low-wage outcomes. Overall, labour remains far less mobile than goods, services and real and financial capital.

177. A second explanation for the weakened performance of developed-country labour markets focuses on technology—particularly that recent technological innovations have placed a premium on skills and shifted demand away from less-skilled labour. The skill bias of technical change has created a mismatch between the labour attributes required on the demand side of the market and those available on the supply side. Empirical research has not been conclusive regarding the importance of technology in determining recent labour market outcomes. Wage differentials between skilled and unskilled workers have risen in the United Kingdom and the United States, and there is evidence that computerization has been associated with higher wages and skill requirements.¹³⁸ It has been difficult, however, to obtain measures of new technology that can be linked with observed outcomes. In the United States higher unemployment, stagnant real wages and skill premiums in the wage structure began to appear in the 1970s, yet the spread of computers and computer-related technologies in offices and factories dates from the 1980s. Moreover, studies of firms and industries have unearthed evidence linking the greater use of new technologies, particularly information technologies, to labour-saving and skill-enhancing work requirements. Yet evidence has indicated little or no changes in labour requirements associated with new technologies.¹³⁹ As with globalization, technology may be labour-displacing in some instances; however, technological innovation also tends to reduce costs and stimulate demand, leading to expanded output and employment.¹⁴⁰

178. Perhaps even more important, globalization and

technical change are interdependent. Indeed, trade and FDI are major conduits for the spread of technology, while intensified competition provides a powerful incentive for firms to deploy new technologies. In addition, some firm-level changes (such as those described above as components of lean production) are primarily organizational innovations rather than technological ones. Such interrelationships heighten the difficulty of isolating cause and effect linkages.

179. Changes in international economic relations and in the technology and organization of production may be labour-displacing in the short term but labour-enhancing over time, as economies adjust to new conditions (see box 7.5). Indeed, technical progress has occurred over several centuries without a corresponding secular rise in unemployment, while growth in international trade and FDI have been associated with economic growth in the past. The challenge is to devise responses to the disruptive aspects of change that also permit the growth-enhancing and labour-utilizing aspects to take effect.

180. A further difficulty in applying the globalization and technical change explanations is that labour market outcomes have differed substantially among the developed economies. There are major differences in the relative success countries have had in combating unemployment. Similarly, while a number of economies have exhibited growing inequality, some countries have seen their wage gaps widen to a greater extent than have others. While there have been differences in the reliance on international linkages and in the pace at which new technologies have been introduced across economies, these differences are not large enough to explain the cross-national differences in labour market outcomes. Therefore, the observed differences across countries have been pinned to differences in labour market institutions.¹⁴¹

181. One common argument is that greater inequality is the mirror image of lower unemployment: countries that allow freer markets generate more low-paying jobs, while countries that have high social safety net protections generate higher incomes at the bottom of the distribution, but fewer jobs. Countries that have moved towards more open labour markets with less comprehensive social safety nets have been more successful in lowering unemployment but less successful in maintaining wage and salary growth, and have experienced a greater deterioration in their wage distribution. In contrast, countries with more comprehensive safety nets and less flexible labour markets have higher unemployment rates and less inequality.¹⁴²

182. These differences in outcomes and market structures have stimulated a substantial discussion in recent years, at both the national and intergovernmental levels, as to the role labour market structure plays in determining employment, unemployment and wages.¹⁴³ The main comparisons were made between the United States and Western Europe.

183. The United States has increased the flexibility of its labour and product markets through government actions aimed at deregulating industries and limiting the scope of its social safety net—which was already low compared with other developed economies. The portion of the workforce protected by unions has declined, because of both government actions and changes in economic activity. The United States has achieved relatively

BOX 7.5 TECHNICAL CHANGE AND LABOUR IN THE UNITED STATES

Technical change, particularly rapid technical change, has frequently created substantial displacement in labour markets. Current technical change is knowledge-intensive and appears to be linked to a widening of the wage distribution and an increase in unemployment among less-skilled workers in a number of developed economies.

Similar labour market disruptions have occurred in the past. From the last half of the nineteenth century until well into the twentieth century, technical change in the United States tended to favour physical capital, natural resources and unskilled labour at the expense of skilled labour. These changes were embodied in the mass production system, which replaced craft-based production and which drew its labour force from large-scale immigration and the decline in demand from agriculture.

By the first two decades of the twentieth century, changes in manufacturing were beginning to raise skill requirements. For example, manufacturing industries required machine-building and maintenance skills, while management skills were increasingly needed as firms grew. Expanded electrification and developments in chemicals and petroleum demanded new equipment and gave rise to new industries, such as household appliances. Wage differentials appeared, and it then became possible to identify the growth of skill premiums in the wage structure. One response was the spread of mass education and the updating of curricula; over time, the supply of skills caught up with demand, and gaps in the wage structure were kept under control.^a It is in this period that a complementarity between capital investment and worker skills appeared, replacing the earlier complementarity between capital and unskilled labour.^b

The present emphasis on knowledge-intensive skills dates from the period after the Second World War.^c The war effort unleashed a period of science-based technical change, epitomized by the computer and jet aircraft, both products of wartime research and development. As in earlier periods, new industries developed, and some older ones expanded, often in the context of favourable government policies. For more than two decades aggregate economic conditions fostered relatively non-inflationary demand growth with few serious labour market disruptions. In addition, while computerized technology was prominent after the war, it did not spread widely through factories and offices

until the 1970s and 1980s. Rising unemployment levels and deterioration of the wage distribution was first seen in the early 1970s, prior to the spread of the computer.

Thus, while wage premiums favouring skilled workers have clearly risen and unemployment and income erosion among the less-skilled has become a more serious problem in the United States, how much is associated with technical change per se and how much is linked to a weaker macroeconomic environment, the loss of key worker protection and the growth of international trade remains a debated issue.

Government policies have been only modestly effective in reducing unemployment among less-skilled workers, and income gaps remain wide. Recent evidence that the wage premium for skills is no longer rising suggests that higher college enrolments are increasing the supply of skilled workers, a process similar to that prior to the Second World War.^d Such adjustments take considerable time and are not accessible to all.

The existence of technologically dynamic industries and the injection of new technologies and organizational methods into older industries can generate significant opportunities for employment, the application of skills and income gains. But those whose employment conditions improve are from a new generation and are often different from those whose employment conditions suffer as job requirements change and firms and industries are restructured.

Perhaps one way to look at the issue is to realize that technological change does cause significant dislocations in labour markets, and can be a source of unemployment and inequality, but that these problems can be made less onerous to the extent that high-demand growth can foster employment opportunities, if workers can be provided with some protection without restricting mobility and if domestic industries can compete effectively in international markets.

^aClaudia Golden and Lawrence Katz, "Technology, skill and the wage structure: insights from the past", *American Economic Review*, vol. 86, No. 2 (May 1996), pp. 252-257.

^bGavin Wright, "The origins of American industrial success, 1879-1940", *American Economic Review*, vol. 80, No. 4 (September 1990), p. 651-668.

^cDavid C. Mowery and Nathan Rosenberg, *Technology and the Pursuit of Economic Growth*, (Cambridge, Cambridge University Press, 1989).

^dMichael M. Phillips, "Wage gap based on education levels off", *The Wall Street Journal*, 22 July 1996.

low unemployment in the 1990s. Low-wage employment has also grown rapidly. But the United States has a deteriorating wage distribution.

184. In contrast, a number of European countries have extensive labour and product market regulations, strong unions, and high and comprehensive social safety nets, with high unemployment and a more stable wage distribution. France and Germany are examples of countries that are seeking to make their labour markets more flexible as a means of combating chronically high rates of involuntary unemployment.

185. But government actions to remove structural impediments in labour markets may not be able to fully resolve the labour market outcomes that have been most troubling. Some impediments, such as minimum wage laws, may have smaller effects than had previously been thought.¹⁴⁴ Some structural issues, such as informational asymmetries, may necessitate that Governments become more involved in the workings of markets. Moreover, the recent experience of the developed economies suggests a more complicated picture than that given by focusing on differences in labour market structure. The United King-

dom, for example, has moved towards flexible labour markets and lower safety nets, yet has both high unemployment and a widening income distribution.¹⁴⁵

186. The relation between structural impediments and macroeconomic conditions remains an open issue. The inflationary conditions and high budget deficits of the 1970s and 1980s led developed-country Governments to become more cautious in applying monetary and fiscal stimuli. Yet it is precisely those periods of aggregate expansion, such as the mid-to-late 1980s in Europe and North America and the early-to-mid 1990s in the United States, that have seen the largest gains in the fight against unemployment. As will be discussed in the next section, the appropriate mix of macroeconomic policies and microeconomic policies affecting labour market structure is an issue worthy of substantial attention.

5. Policy issues

187. Many policy initiatives have been undertaken in the developed market economies, and even more been seriously scrutinized, as problems of involuntary unemployment have persisted. Policies can be discussed under three headings: those aimed primarily at stimulating the demand side of the labour market, those concerned largely with the supply side and those intended to improve how labour markets function.

188. Demand-side policy includes both highly aggressive policies aimed at stimulating demand in the economy as a whole, and actions on the part of Governments to increase the employment of labour for specific purposes or in specific sectors. Policies have also aimed at stimulating demand in regions within countries.

189. Prior to the 1970s the stimulation of aggregate demand was a centrepiece of labour market policies in many developed economies. Since then, the role of aggregate policies has changed. High budget deficits, dating from the 1970s and 1980s, led many countries to reduce the degree of fiscal stimulation. This has been the case in Japan and the United States, among the largest economies, while a number of Western European economies have instituted greater fiscal restraint, in part as a response to the budget targets articulated in the Maastricht agreement. Similarly, inflationary pressures led to greater monetary restraint in many countries. Finally, international linkages, involving trade, financial and FDI flows, have constrained the ability of countries to adopt more expansionary policies in some instances. In Western Europe the central role played by the deutsche mark in foreign exchange markets has pushed countries towards greater restraint in order to protect their currencies.

190. The fight against inflation directly involves employment. Unemployment is thought necessary to prevent the acceleration of inflation; policy debates have focused on what unemployment rate is needed. The existence of a fairly high rate of unemployment (by historical standards) consistent with stable inflation, the non-accelerating inflation rate of unemployment (NAIRU), is widely accepted, with some arguing that the inflation rate should be driven down, perhaps to zero, not just maintained.

191. Recently, the high level of the NAIRU has been called into question (see box 7.6). Inflation rates in the United States are below 3 per cent per year—the lowest in three decades. In Japan there is greater concern regarding the possible spread of deflationary pressures, rather than

accelerating inflation. In Western Europe, however, the high NAIRU in many countries is a cause for concern; the level of unemployment consistent with stable inflation implies a high cost born by the workforce.

192. Pressures to limit the expansion of government budgets have affected programmes that generate jobs in specific sectors or regions. Direct job stimulation has been inhibited also because of widespread privatization and deregulation. Privatized enterprises and those no longer under regulatory protection tend to reduce their labour requirements. But again, deregulated and privatized enterprises may become more technologically advanced and internationally competitive, leading to expansion in output and employment over time. Also, cost reductions and technological improvements in deregulated industries, such as telecommunications, can stimulate expansion in other sectors. Even with the advantages of privatization and deregulation, it may be possible to expand a number of government activities that have significant potential benefits, as well as positive employment impacts. Investment in physical infrastructure is one such activity; investment in human capital through education and health care is another.

193. Some demand-side policies use the price system to stimulate hiring. Some countries with minimum wage laws also permit sub-minimum wages to be paid in certain instances, such as to young people. Moreover, in a number of countries the real value of minimum wages has declined over time and relative to the wage structure, because of inflation. Inaction on the part of Governments regarding the protection of minimum wages from such erosion can be interpreted as a policy response. The widespread perception that minimum wages contribute to unemployment, however, has not been borne out. Recent research on the United States and Western Europe suggests that changes in minimum wages have a very small impact on employment and unemployment.¹⁴⁶ Indeed, the problems discussed above regarding youth unemployment imply that changes in minimum wage policies have had little or no success in stimulating employment among this group.

194. Supply-side policies are those that seek to improve the skills of a nation's labour force and those that affect people's incentives to work. All developed countries have extensive public education systems, frequently including subsidies that can be used in private systems. Coverage, access and the balance between general and vocational education differ—and there are cross-country differences in educational attainment. Many of the policy debates in recent years have focused on how education and training can bridge the growing problem of skill mismatch.

195. One issue is the balance between private and public sector efforts. In Japan, firms have extensive in-house training programmes, partly because of the lifetime employment system and the prevalence of fairly stable inter-firm alliances that serve to internalize movements of labour. Thus firms, or their allies, are more likely to retain benefits of in-house training, compared with economies that have greater inter-firm mobility of labour.¹⁴⁷ In economies with high labour mobility there are significant external benefits from training programmes. There would thus appear to be a substantial role for public programmes in such cases.

Box 7.6 UNEMPLOYMENT AND INFLATION: THE NAIRU

The existence of a trade-off between unemployment and inflation is a central component of macro-economic policy formulation in the developed economies. An empirical trade-off between unemployment and nominal wage changes was formulated by A. W. Phillips in 1958, studying data from the United Kingdom, and was quickly labelled the "Phillips curve".^a In the 1950s and 1960s, it was widely believed that aggregate unemployment rates as low as 3 or 4 per cent (by United States definitions; even lower in some countries) could be achieved without inflation. If inflationary pressures emerged, a higher rate of unemployment would restore price stability, in effect moving an economy along its Phillips curve. In the late 1960s, as inflationary pressures became visible in a number of economies, Milton Friedman and Edmund Phelps reformulated the trade-off analysis.^b They argued that once inflation began, expectations of future inflation would take hold and people's market behaviour would alter the "stable" inflation point. The expectations-augmented Phillips curve was thought to be unstable in the short-run and, therefore, a poor guide for policy, leading to accelerating inflation if policy was formulated to achieve too low an unemployment rate. From this theory came the notion that at any given time in an economy, there will exist a rate of unemployment consistent with a stable rate of inflation, that is, a non-accelerating inflation. This was labelled the non-accelerating inflation rate of unemployment (NAIRU).^c

The NAIRU cannot be directly observed, and substantial attention has been devoted to estimating where it is likely to be, based on past unemployment and inflation data. An economy's NAIRU can change over time, not just because expectations shift but because the composition of the labour force changes, the demand for different labour skills moves at different rates, and discouraged workers enter and leave the labour force. In the United States the NAIRU was placed at about 6 per cent in 1993 and 1994. One estimate placed the NAIRU at 6.25 per cent in mid-1993, and warned that inflationary pressures would be observed as the actual unemployment rate approached that level.^d

Recent research and experience has cast some doubt on the importance attached to the NAIRU. For example, the United States unemployment rate fell below 6 per cent—reaching 5.1 per cent in the summer of 1996—without an acceleration of inflation. With the

rate of inflation low and stable, were inflationary expectations largely removed? Indeed, relatively little is known about the formation or stability of inflationary expectations. In the absence of inflationary expectations, an expectations-augmented Phillips curve can be reduced to the simple Phillips curve, and policy makers may be able to target an even lower unemployment rate. Researchers Douglas Staiger, James Stock and Mark Watson found that estimates of the NAIRU for the United States have a wide confidence interval, meaning that a single point estimate should not be relied on.^e For 1990, NAIRU estimates at a 95 per cent confidence interval ranged from 5.1 to 7.7 per cent. More recently, Robert Gordon has argued that the NAIRU varies within a narrower range.^f Robert Eisner analysed United States inflation and unemployment data from 1960 and found the relation to be asymmetrical: unemployment rates below what was thought to be the NAIRU were not associated with accelerating inflation while unemployment rates above the NAIRU were associated with falling inflation.^g In a cross-country study of developed economies Laurence Ball found that increases in a country's NAIRU were linked to its degree of monetary tightness and the size and length of disinflationary periods.^h This result implies that the NAIRU may be a result of policy changes, and not only a cause.

^aA. W. H. Phillips, "The relationship between unemployment and the rate of change of money wage rates in the United Kingdom, 1861-1957", *Economica*, vol. 25 (1958), pp. 283-299.

^bMilton Friedman, "The role of monetary policy", *American Economic Review*, vol. 58, No. 2 (May 1968), pp. 1-17; Edmund Phelps, "Phillips curves, expectations of inflation, and optimal unemployment over time", *Economica*, vol. 34 (August 1967), pp. 254-281.

^c*World Economic and Social Survey 1994* (United Nations publication, Sales No. E.94.II.C.1), pp. 160-161.

^dStuart Weiner, "New estimates of the natural rate of unemployment", Federal Reserve Bank of Kansas City, *Economic Review*, vol. 78, No. 4 (1993), pp. 53-69.

^eDouglas Staiger, James Stock and Mark Watson, *How Precise are Estimates of the Natural Rate of Unemployment?* National Bureau of Economic Research (NBER) Working Paper No. 5477 (Cambridge, Massachusetts, March 1996).

^fRobert J. Gordon, *The time-varying Nairu and its implications for economic policy*, NBER Working Paper No. 5735 (Cambridge, Massachusetts, August 1996).

^gRobert Eisner, "A new view of the NAIRU", Department of Economics, Northwestern University (July 1996).

^hLaurence Ball, *Disinflation and the NAIRU*, NBER Working Paper No. 5520 (Cambridge, Massachusetts, March 1996).

196. Recent research indicates that firm-based training systems do yield substantial returns, both to the individuals receiving training and the firms giving it, even if the firms are unable to capture all of the potential returns. Studies of employer-provided workplace training programmes in Australia, the Netherlands, the United Kingdom and the United States indicate firm-level productivity increases of 11 to 20 per cent and individual wage increases of 3 to 16 per cent.¹⁴⁸ In one study of the United States, training received from prior employers increased worker productivity by almost 10 per cent and reduced

the amount of training required in the new firm, giving evidence of external benefits.¹⁴⁹ Such results suggest that public support of firm-level training would generate substantial benefits. It is thought by some that firm-level training may be effective to the extent firms have the flexibility to adjust training to meet rapidly changing skill requirements.

197. Another group of supply-side policies are those that seek to remove or reduce disincentives to work: chiefly high and extensive social safety nets. A number of countries, most prominently the United Kingdom and the

United States, have instituted policy changes to reduce benefits and/or narrow access to safety net programmes. In late 1996, for example, the United States Government altered its decades-old welfare programme, funded centrally but administered decentrally, in an attempt to reduce welfare rolls and induce more welfare recipients into the job market.

198. Such changes are part of broader attempts to remove or reduce both public and private worker protection programmes. Some of these changes have been controversial—proposed changes in France in 1995 were met by intensified labour unrest. More important, it is not clear whether removing or reducing safety net-related disincentives substantially affects labour supply—available research is inconclusive.¹⁵⁰ At the aggregate level, some of the countries that have chosen to reform safety nets still have high unemployment rates, such as the United Kingdom, or a wide wage distribution, such as the United States. The challenge is to formulate socially effective safety nets that minimize interference in labour supply behaviour.

199. One of the rationales for reducing safety net protection is that it impedes the functioning of markets, and thereby explains the structural nature of unemployment. Other policies are also aimed at improving how labour markets work. Many Governments provide job-matching services to improve the flow of information. Subsidies to aid in geographical mobility and retraining programmes to improve occupational and industrial mobility have been tried, but have been cut back in many countries, such as Sweden, because of restrictions on government outlays. Not all impediments to hiring can be traced to policy weaknesses. In some instances, firms may fail to respond to market-determined wage differentials, preferring to retain more highly paid “insiders” to expanding the employment of lower wage “outsiders”. Such firms not only value the firm-specific skills of insiders, but also value continuity and trust within the organization. Such behaviour, while rational for the firm, creates discontinuities in labour markets that are difficult to overcome.

200. It is certainly possible to conceive of the various policy instruments in terms of their compatibility. Macroeconomic stimulation and microeconomic policies designed to remove structural barriers in labour and product markets can be jointly effective in stimulating employment. The issue in both cases is the trade-offs. In addition to stimulating demand and employment, macroeconomic policies must also be concerned with inflation, a country's external balance, and savings and investment. Microeconomic policies must deal with human capital and job creation, on the one hand, and poverty and inequality on the other. Each country must establish its own priorities in balancing these objectives.

NOTES

¹It should be recalled that the 2010 labour force has already been born. The Chinese total fertility rate (per woman) was estimated at 5.94 during the period 1965-1970 and 1.95 during the period 1990-1995. See *World Population Prospects. The 1994 Revision* (United Nations publication, Sales No. E.95.XIII.16).

²See *Bulletin of Labour Statistics*, 1995-1, 1995-2 and 1995-3 (Geneva, International Labour Office, 1995).

³See *World Economic and Social Survey 1995* (United Nations publication, Sales No. E.95.II.C.1), pp. 263-282.

⁴The high share in Latin America reflects the relative ease of commuting. See D. Turnham, *Employment and Development: A New View of the Evidence* (Paris, OECD, 1993).

⁵There is evidence, however, that geographical mobility of labour may be constrained in traditional agriculture, particularly in Asia, where the strength of community relations plays an important role in the recruitment of hired labour. See S. Hirashima and M. Muqtada, eds. *Hired Labour and Rural Labour Markets in Asia* (Geneva, International Labour Office, 1986).

⁶A. Saith, “Reflections on South Asian Prospects in East Asian Perspective”, *Issues in Development*, Discussion Paper No. 7 (Geneva, International Labour Office, 1995).

⁷M. R. Rosenzweig, “Labour markets in low income countries”, in *Handbook of Development Economics*, vol. 1, H. Chenery and T. N. Srinivasan, eds. (Amsterdam, Netherlands, Elsevier Science Publishers, 1988), pp. 714-762.

⁸The wage rate of permanent labourers is usually lower than that of casual labourers. Hirashima and Muqtada, op. cit.

⁹A. de Janvry and others, “Rural labour in Latin America”, *International Labour Review*, vol. 128, No. 6 (1989), pp. 701-730.

¹⁰On recent economic trends in developing countries, see *World Economic and Social Survey 1996* (United Nations publication, Sales No. E.96.II.C.1), pp. 34-54.

¹¹See M. Muqtada and P. Basu, “Macroeconomic policies, growth and employment expansion: the experience of South Asia”, Paper No. 8, July 1994, prepared under the ILO/UNDP project “Economic policy and employment”; and A. Singh, “Labour markets and structural adjustments: a global view”, in *Towards Social Adjustment: Labour Market Issues in Structural Adjustment*, G. Standing and V. Tokman, eds. (Geneva, International Labour Office, 1991).

¹²That analysis covered the period 1975-1994; it did not, however, include comparisons with previous periods and did not examine the possibility of changes in job elasticity within the periods analysed. See “Employment policies in a global context”, International Labour Conference, 83rd session (Geneva, International Labour Office, 1996).

¹³*World Population Monitoring 1993* (United Nations publication, Sales No. E.95.XIII.8); Pang Eng Fong, *Regionalism and Labour Flows in Pacific Asia* (Paris, OECD, 1993); and *World Investment Report 1994* (United Nations publication, Sales No. E.94.II.A.14).

¹⁴World Bank, *India Country Economic Memorandum—Recent Economic Developments: Achievements and Challenges*, Report No. 14402-IN (Washington, D.C., May 1995).

¹⁵Even countries with diversified productive structures have been affected by oil because of their reliance on official development assistance (ODA) from the oil-exporting countries.

¹⁶Economic and Social Commission for Western Asia (ESCWA), “Summary of economic and social developments in the ESCWA region, 1995” (E/1996/50); and R. A. Shaban and others, “The challenge of unemployment in the Arab region”, *International Labour Review*, vol. 134, No. 1 (1995), pp. 65-81.

¹⁷World Bank, “Will Arab workers prosper or be left out in the twenty-first century?”, regional perspectives on *World Development Report 1995* (Washington, D.C., 1995).

¹⁸Mexico's current account deficit reached about 8 per cent of GNP in 1994, while it was around 3 per cent of GNP in 1989. In addition, Mexico had a considerable amount of dollar-linked short-term government securities (*Tesobonos*) that were maturing and needed to be covered. Argentina, on the other hand, ran a small surplus in its current account in 1990 which, however, was not sustained in subsequent years. By 1994, Argentina's current account deficit was about 3.5 per cent of GNP.

¹⁹World Bank, *Cameroon: Diversity, Growth, and Poverty Reduction*, Report No. 13167-CM (Washington, D.C., April 1995); J. P. Lachaud, *The Labour Market in Africa* (Geneva, International Labour Office, 1994) and *World Economic and Social Survey 1996* . . .

²⁰Fundação Getúlio Vargas, *Conjuntura Econômica*, vol. 50, No. 2 (February 1996); Fundación de Investigaciones Económicas Latinoamericanas, *Indicadores de Coyuntura*, No. 354, March 1996; N. B. Bernal, “The social consequences of economic restructuring in the Philippines”, in *Social Costs of Economic Restructuring in Asia and the Pacific*, ESCAP Development Papers No. 15 (United Nations

publication, Sales No. E.94.II.F.2), pp. 330-405; and Cameroon: *Diversity, Growth, and Poverty Reduction* . . .

²¹Report on the World Social Situation 1993 (United Nations publication, Sales No. E.93.IV.2).

²²P. Stalker, *The Work of Strangers: A Survey of International Labour Migration* (Geneva, International Labour Office, 1994).

²³*The World's Women 1995: Trends and Statistics* (United Nations publication, Sales No. E.95.XVII.2 and corrigendum).

²⁴World Bank, *Jobs, Poverty and Working Conditions in South Asia* (Washington, D.C., 1995); C. Grootaert and R. Kanbur, "Child labour: an economic perspective", *International Labour Review*, vol. 134, No. 2 (1995), pp. 187-203.

²⁵A. Bequele and W. E. Myers, *First Things First in Child Labour: Eliminating Work Detrimental to Children* (Geneva, International Labour Office, 1995). See also A. B. Kruger, *Observations on International Labour Standards and Trade*, National Bureau of Economic Research Working Paper No. 5632 (Cambridge, Massachusetts, June 1996).

²⁶On stabilization and structural adjustment programmes in developing countries, see, for example, the report of the Secretary-General on economic stabilization programmes in developing countries (A/48/380); "Dilemmas of macroeconomic adjustment: stabilization and adjustment in developing countries", in *Supplement to World Economic Survey 1990-1991* (United Nations publication, Sales No. E.92.II.C.2; and *World Economic and Social Survey 1995* . . . , chap. V.

²⁷B. Numberg, "Experience with civil service pay and employment reforms: an overview", in *Rehabilitating Government: Pay and Employment Reform in Africa*, D. L. Lindauer and B. Numberg, eds. (Washington, D.C., World Bank, 1994), pp. 119-159.

²⁸World Bank, *Adjustment in Africa: Reforms, Results and the Road Ahead* (Oxford and New York, Oxford University Press, 1994). A recent article in the *Financial Times*, however, put these figures at a higher magnitude: about 200,000 (T. Hawkins, "Back in the intensive care ward", *Financial Times Survey*, 9 July 1996, p. II).

²⁹S. Chee and C. Lee, "Social costs of economic restructuring: the Malaysian case", *Social Costs of Economic Restructuring in Asia and the Pacific* . . .

³⁰World Bank, *Bolivia. Poverty, Equity and Income*, Report No. 15272-BO (Washington, D.C., February 1996).

³¹It has been estimated that EGS reduces rural unemployment in Maharashtra by 10 to 35 per cent. Its costs, however, absorb 10 to 14 per cent of the state budget. M. Lipton, *Successes in Anti-poverty, Issues in Development*, Discussion Paper No. 8 (Geneva, International Labour Office, 1996).

³²A. B. Deolalikar, "Special employment programmes and poverty alleviation", *Asian Development Review*, vol. 13, No. 12 (1995), pp. 50-73; and M. Lipton, op. cit.

³³It may also take time for economic agents to react to the new price signals of the economy. Reforms must also be credible and sustainable, as discussed in *World Economic and Social Survey 1996* . . . (chap. VII (Investment in developing countries), pp. 145-188).

³⁴See Fanelli and Frenkel, "Notes on the Argentine experience with stabilization and structural reform", paper presented at the New School for Social Research spring conference, and "After neoliberalism in Latin America: now what?" (May 1996); and C. Pessino, "Labour market consequences of the economic reforms in Argentina", in *Social Tensions, Job Creation and Economic Policy in Latin America*, C. D. Turnham and others, eds. (Paris, OECD, 1995), pp. 293-313.

³⁵Despite robust investment ratios, China still faces employment problems brought about by distortions in the state sector and the existence of severe underemployment in agriculture prior to the launching of reforms.

³⁶The degree of non-compliance can be extensive in these economies. See "Employment Policies in a Global Context", Report V, International Labour Conference, 83rd session (Geneva, International Labour Office, 1996).

³⁷P. R. Aginor, "The labour market and economic adjustment", *IMF Staff Papers*, vol. 43, No. 2 (June 1996), pp. 261-335.

³⁸*Economic and Social Survey of Asia and the Pacific 1996* (United Nations publication, Sales No. E.96.II.F.18).

³⁹I. Joumard, "The informal sector, employment and the institutional framework in developing countries", *The Changing Course of*

International Migration (Paris, OECD, 1993), pp. 131-137. See also C. Maldonado, "The informal sector: legalization or laissez-faire?", *International Labour Review*, vol. 134, No. 6 (1995), pp. 705-728.

⁴⁰G. Yamada, "Urban informal employment and self-employment in developing countries: theory and evidence", *Economic Development and Cultural Change*, vol. 44, No. 2 (January 1996), pp. 289-314.

⁴¹*World Labour Report 1992* (Geneva, International Labour Office, 1992); K. Meagher, "Crisis, informalization and urban informal sector in sub-Saharan Africa", *Development and Change*, vol. 26 (1995), pp. 259-284, and E. Amadeo and G. Gonzaga, "Inflation and economic policy reform: social implications in Brazil", in *Social Tensions, Job Creation and Economic Policy in Latin America*, C. D. Turnham and others, eds. (Paris, OECD, 1995), pp. 259-279.

⁴²Meagher, "Crisis, informalization and urban informal sector in sub-Saharan Africa" . . .

⁴³"We have not found the informal sector to be a concept of either analytic or operational value, and we do not use it." Quoted in D. Turnham, *Employment and Development: A New Review of the Evidence* (Paris, OECD, 1993), p. 120.

⁴⁴A. Uthoff, "Reforma de los sistemas de pensiones en América Latina", *Revista de la CEPAL*, No. 56 (August 1995), pp. 43-58; D. C. Mead, "The contribution of small enterprises to employment and growth in southern and eastern Africa", *World Development*, vol. 22, No. 12 (1994), pp. 1881-1894; *World Economic Survey 1993* (United Nations publication, Sales No. E.93.II.C.1), pp. 185-201; M. A. McPherson, "Growth of micro and small enterprises in southern Africa", *Journal of Development Economics*, vol. 48 (1996), pp. 253-277.

⁴⁵C. Morisson and others, *Micro-enterprises and the Institutional Framework* (Paris, OECD, 1994).

⁴⁶D. C. Mead, "The contribution of small enterprises to employment and growth in southern and eastern Africa", *World Development*, vol. 22, No. 12 (1994), pp. 1881-1894; G. Edgren and M. Muqtada, "Strategies for growth and employment in Asia: learning from within", in *Employment Challenges for the 1990s* (Geneva, International Labour Office, 1990), pp. 13-58.

⁴⁷On the Chinese reforms and development of the non-state sector, see "Economic reform and the development of the non-state sector: a case-study of China", *World Economic Survey 1993*, chap. VII, pp. 185-201.

⁴⁸Mead, op. cit.; and G. Edgren and M. Muqtada, "Strategies for growth and employment in Asia: learning from within", *Employment Challenges for the 1990s* (Geneva, International Labour Office, 1990), pp. 13-58.

⁴⁹M. S. Ahluwalia, "Policies for poverty alleviation", *Asian Development Review*, vol. 8, No. 1 (1990), pp. 111-132.

⁵⁰Mead, loc. cit., indicates that only 25 per cent of small enterprises have expanded the number of employed, while Morisson, op. cit., mentions significantly higher figures for Ecuador (44 per cent) and Jamaica (61 per cent).

⁵¹G. Edgren and M. Muqtada, "Strategies for growth and employment in Asia: learning from within", in *Employment Challenges for the 1990s* (Geneva, International Labour Office, 1990), pp. 13-58.

⁵²See, for example, World Bank, *Global Economic Prospects and the Developing Countries 1996* (Washington, D.C., 1996).

⁵³World Bank, *Global Economic Prospects and the Developing Countries, 1995* (Washington, D.C., 1995), pp. 30-31.

⁵⁴International Monetary Fund, *Policy Experiences and Issues in the Baltic, Russia, and Other Countries of the Former Soviet Union*, Occasional Paper No. 133 (Washington, D.C., 1995), table I.3, p. 6.

⁵⁵United Nations Conference on Trade and Development, "Conclusions and recommendations of the Inter-Agency Seminar on Globalization and Liberalization: Effects of International Economic Relations on Poverty" (UNCTAD/ECDC/PA/4, 20 May 1996), p. 11.

⁵⁶For a discussion of these issues, see "Employment policies in a global context", Report V, International Labour Conference, 83rd session (Geneva, International Labour Office, 1996), pp. 8-29.

⁵⁷*Economic Survey of Europe in 1995-1996* (United Nations publication, Sales No. 96.II.E.1), p. 85.

⁵⁸*Rossya v tsyifrah, 1996* (Russia in figures, 1996) (Moscow, Goskomstat, 1996), p. 34.

- ⁵⁹Jan Svejnar, "Enterprise and workers in transition: econometric evidence", *American Economic Review*, vol. 86, No. 2 (May 1996), p. 123.
- ⁶⁰*World Engineering Industries and Automation: Performance and Prospects 1994-1996* (United Nations publication, Sales No. E.96.II.E.50), p. 144.
- ⁶¹*World Engineering Industries* . . . , pp. 55 and 92.
- ⁶²*Economic Survey of Europe in 1995-1996* . . . , p. 84.
- ⁶³See also *World Economic and Social Survey 1994*, (United Nations publication, Sales No. E.94.II.C.1), pp. 191-193.
- ⁶⁴OECD/Centre for Cooperation with the Economies in Transition, Labour Market Database (direct communication to the Department for Economic and Social Information and Policy Analysis of the United Nations Secretariat).
- ⁶⁵See, for instance, Richard Jackman, "Economic policy and employment in the transition economies of Central and Eastern Europe: What have we learned?" *International Labour Review*, vol. 133, No. 3 (1994), p. 332.
- ⁶⁶Malgorzata Kalaska and Janusz Witkowski, *Unregistered Employment in Poland in 1995* (Warsaw, Central Statistical Office, 1996).
- ⁶⁷See, for instance, OECD, *Social and Labour Market Policies in Hungary* (Paris, 1995), p. 49.
- ⁶⁸See, for instance, *Human Development Report 1995* (New York and Oxford, Oxford University Press, 1995).
- ⁶⁹Natalia Tchernina, *Economic Transition and Social Exclusion in Russia*, International Institute for Labour Studies/UNDP Research Series No. 108 (Geneva, 1996), p. 28.
- ⁷⁰Központi Statisztikai Hivatal. *Statisztikai Havi Közlemények* (Central Statistical Office. Monthly Bulletin of Statistics) (Budapest, various issues).
- ⁷¹"General conditions to stimulate job creation in small and medium-sized enterprises", Report Y (1), International Labour Conference, 85th session (Geneva, International Labour Office, 1995), p. 9.
- ⁷²*Rossya v tsyfrakh* . . . , p. 56.
- ⁷³See, for instance, Milan Vodopivec, "Accelerating labor market changes in Slovenia—overall lessons", *Transition* (Washington, D.C.), vol. 7, No. 1 (1996), p. 8; Robert J. Flanagan, "Wage structures in the transition of the Czech economy", *IMF Staff Papers*, vol. 42, No. 4 (December 1995).
- ⁷⁴Guy Standing and Georg Fisher, "Policy issues of the emerging labour markets of Central and Eastern Europe", in *Structural Change in Central and Eastern Europe: Labour Market and Social Policy Implications* (Paris, OECD, 1993), p. 26.
- ⁷⁵For details, see *Economic Survey of Europe in 1995-1996* . . . , p. 86.
- ⁷⁶See, for example, *Social and Labour Market Policies in Hungary* . . . , p. 46.
- ⁷⁷OECD, *Review of the Labour Market in the Czech Republic* (Paris, 1995), p. 66.
- ⁷⁸See, for instance, Janos Timar, "Particular features of employment and unemployment in the present stage of transformation of the post-socialist countries", *Europe-Asia Studies*, vol. 47, No. 4 (1995), p. 641.
- ⁷⁹Economic Commission for Europe, *International Migration Bulletin*, No. 8 (Geneva, August 1996), p. 8.
- ⁸⁰Tito Boeri and Gyorgy Sziraczki, "Labour market developments and policies in central and eastern Europe: a comparative analysis", in *Structural Change in Central and Eastern Europe*, Labour Market and Social Policy Implications (Paris, OECD, 1993), p. 256.
- ⁸¹See Milan Vodopivec, "Accelerating labor market changes in Slovenia—overall lessons", *Transition* (Washington, D.C.), vol. 7, No. 1 (1996), pp. 8-9.
- ⁸²OECD/Centre for Cooperation with the Economies in Transition, Labour Market Database (direct communication to the Department for Economic and Social Information and Policy Analysis of the United Nations Secretariat).
- ⁸³See, for instance, OECD, *Social and Labour Market Policies in Hungary* (Paris, 1995), p. 55.
- ⁸⁴J. S. Earle and C. Pauna, "Incidence and duration of unemployment in Romania", *European Economic Review*, vol. 40, Nos. 3-5 (1996), p. 831.
- ⁸⁵OECD/Centre for Cooperation with the Economies in Transition, Labour Market database (direct communication to the Department for Economic and Social Information and Policy Analysis of the United Nations Secretariat).
- ⁸⁶See *Social and Labour Market Policies in Hungary* . . . , p. 52.
- ⁸⁷See, for example, OECD, *Labour Market and Social Policies in the Slovak Republic* (Paris, 1996), p. 29.
- ⁸⁸Guy Standing and Laszlo Zsoldos, *Labour Market Crisis in Ukrainian Industry: The 1995 Ukrainian Labour Force Survey*, Labour Market Papers No. 12 (Geneva, International Labour Office, 1995), p. 29.
- ⁸⁹Guy Standing, *The "Shake-out" in Russian Factories: The Russian Labour Force Survey, Fifth Round*, Labour Market Papers No. 15 (Geneva, International Labour Office, 1995), p. 22.
- ⁹⁰*Economic Survey of Europe in 1995-1996* . . . , p. 93.
- ⁹¹See, for instance, OECD, *Labour Market and Social Policies in the Slovak Republic* (Paris, 1996), p. 83.
- ⁹²*Economic Survey of Europe in 1995-1996* . . . , p. 91.
- ⁹³Guy Standing, *The "Shake-out" in Russian Factories: The Russian Labour Force Survey, Fifth Round*, Labour Market Papers No. 15, (Geneva, International Labour Office, 1995), p. 17.
- ⁹⁴*Ibid.*, p. 23.
- ⁹⁵Guy Standing and Laszlo Zsoldos, *Labour Market Crisis in Ukrainian Industry. The 1995 Ukrainian Labour Force Survey*, Labour Market Papers No. 12 (Geneva, International Labour Office, 1995), p. 30.
- ⁹⁶Martin Godfrey, "The struggle against unemployment: medium-term policy options for transitional economies", *International Labour Review*, vol. 134, No. 1 (1995), p. 12.
- ⁹⁷*Economic Survey of Europe in 1995-1996* . . . , p. 94.
- ⁹⁸Hartmut Lehmann, *Active Labour Market Policies in the OECD and in Selected Transition Economies*, Policy Research Working Paper No. 1502 (Washington, D.C., World Bank, 1995), pp. 57-59.
- ⁹⁹Michal Rutkowski, "Labour market policies in transition economies", *MOCT-MOST* (Bologna), No. 1, 1996, p. 25.
- ¹⁰⁰See, for example, Martin Godfrey, "The struggle against unemployment: medium-term policy options for transitional economies", *International Labour Review*, vol. 134, No. 1 (1995), p. 13.
- ¹⁰¹Godfrey, loc. cit.
- ¹⁰²See, for instance, "Employment policies in a global context", Report V, International Labour Conference, 83rd session (Geneva, International Labour Office, 1996), p. 67.
- ¹⁰³See, for example, "East Germans dependent on job subsidy find Bonn's budget holds a bitter pill", *The Wall Street Journal* (24 September 1996), p. 1.
- ¹⁰⁴"Employment policies in a global context", Report V, International Labour Conference, 83rd session (Geneva, International Labour Office, 1996), p. 101.
- ¹⁰⁵See, for example, Laurence Ball, *Disinflation and the NAIRU*, NBER Working Paper No. 5520 (Cambridge, Massachusetts, March 1996).
- ¹⁰⁶Research on United States business cycles has identified an asymmetry between increases in oil prices, which are associated with business downturns, and decreases in oil prices, which are not associated with upturns. See J. D. Hamilton, "Oil and the macroeconomy since World War II", *Journal of Political Economy*, vol. 91, No. 2 (April 1983), pp. 228-248; K. A. Mark, "Oil and the macroeconomy when prices go up and down: an extension of Hamilton's results", *Journal of Political Economy*, vol. 97, No. 3 (June 1989), pp. 740-744.
- ¹⁰⁷*World Employment 1996/97: National Policies in a Global Context* (Geneva, International Labour Office, 1996), pp. 21-22; Andrea Boltho and Andrew Glyn, "Can macroeconomic policies raise employment?", *International Labour Review*, vol. 134, Nos. 4-5 (1996), pp. 451-470.
- ¹⁰⁸Richard B. Freeman and Lawrence F. Katz, "Rising wage inequality: the United States vs. other advanced countries", in Richard B. Freeman, ed., *Working Under Different Rules* (New York, Russell Sage Foundation, 1994), pp. 29-62; Daniel H. Weinberg, "A brief look at postwar U.S. income inequality", *Current Population Reports*, Bureau of the Census, United States Department of Commerce (June 1996), pp. 60-191; Stephen P. Jenkins, "Recent trends in the United Kingdom income distribution: what happened and why?", *Oxford Review of Economic Policy*, vol. 12, No. 1 (Spring 1996), pp. 29-46; A. B. Atkinson, "Income distribution in Europe and the United States", *ibid.*, pp. 15-28; Stephen Machin, "Wage inequality in the UK", *ibid.*, pp. 47-64.

- ¹⁰⁹OECD *Employment Outlook* (Paris, OECD, July 1996), table 3.1.
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