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Employment adjustment to trade under conditions of stagnating growth

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The rapid rise in output and incomes in market economies during the 1950s and 1960s was facilitated to a large extent by a swift adjustment of employment to changing opportunities offered by international trade. The stagnation which has occurred during the past few years in industrialised market economies is caused or at least aggravated by factors which are likely to persist for a number of years to come. In this situation there are great risks that the capacity for adjustment to trade will seriously decline, owing partly to difficulties in finding alternative employment in stagnating economies, and partly to a new surge of protectionism in international trade as well as in labour market policy. There is a clear danger that protectionist measures will further retard growth and thereby reduce employment both in industrialised and in developing market economies. The present article examines some of the features of this situation, reviews measures that have been taken so far to adjust employment to changes in trade, and discusses the principal options which are open to policy-makers.

1. Changing patterns of employment and trade

There is reason to believe that stagnating growth, high unemployment and rising prices in the industrialised market economies represent more than a cyclical phenomenon. Several factors of medium- and longer-term duration have emerged, influencing investment, prices and labour market behaviour in a way that has significantly changed their response to traditional policy measures such as demand stimuli, price controls and exchange rate adjustments. To some extent these changes may be termed " structural " as opposed to those which are caused by cyclical variations in demand and output, but this distinction is not altogether useful in the context, since a prolonged slack in demand will affect the functioning of capital, labour and product markets in a way which is irreversible, seen in a medium-term perspective. Investment and the use of technological innovations are restrained by a prolonged period of underutilisation of existing capital, as well as by uncertainties regarding currency exchange rates and trade regulations. Employment promotion is

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given lower priority than fighting inflation, and changes in the sensitivity of factor markets to demand and wage-price controls make it likely that the result of present strategies will be a considerable worsening of unemployment at inflation rates which are only moderately lower. In the perspective of economic history, it may become justified to call this scenario a new growth phase, distinct from the postwar boom period.[1]

Structure and behaviour of labour markets

Even if one does not accept the hypothesis that the Western world has now entered a period of slower growth of demand and production, one is bound to concede that radical changes have affected the labour markets to the extent that it is no longer possible to reduce unemployment to previous levels simply by raising the level of total demand. Among these changes are the rate of demographic growth and rising participation rates. In North America demographic change has increased the number of youngsters entering the labour market each year, while rising participation rates of women have contributed to a steady rise in the labour force of most of the OECD countries. Migration for work has virtually been reversed, but for the industrialised countries as a group this reversal amounts to little more than a redistribution of unemployment to the poorer members of the group. It is very unlikely that migration flows to the richer countries will resume their previous strength in the foreseeable future.[2] In addition, there has been a continuous worsening of the ratio of unemployment to vacancies, which indicates a growing mismatch between the requirements of new jobs and the qualifications and aspirations of the jobseekers.[3]

On the demand side, manufacturing industry has ceased to be a driving force in employment creation. It appears inevitable that employment in industry will stagnate or even shrink in an increasing number of countries, even if demand were to rise to previous levels. Behind this long-term trend lies increasing substitution of capital for labour, and also a growing concentration by industrialised economies on capital-intensive products. It has been argued that this process is spurred on by rising labour costs, but there is little evidence in support.[4] It is probably more accurate to attribute it to the importance of technological innovation as a means of competition.

The dynamic force in employment creation is now in services, and particularly in the public sector. In the medium term there are no physical or " structural " factors which would inhibit the growth of services, fundamental social needs still being far from satisfied in most countries. But apprehensions about inflation and political resistance still impede a rapid growth of public services in practically all industrialised countries. A rapid expansion of public services would encroach on private consumption and the tax increases required for this expansion would bring pressure for compensating wage increases. The lower rate of productivity growth in services than in manufacturing would also contribute to raising the pace of cost inflation in the economy as a whole, through institutionalised levers like fixed wage relationships between industries, and fixed profit mark-ups. Together with the supply-demand mismatch referred to above, these inflationary tendencies are probably an important reason why, for any given level of price increase, the corresponding levels of unemployment are now higher than before.

Patterns of trade

In the past couple of decades international trade has been a dynamic factor which has promoted growth. Trade in the OECD area grew at a rate of around 6 per cent per year in the 1950s and 8.5 per cent in the 1960s, or about one and a half times as fast as the rates of GDP growth. Industrialised countries, and in particular the smaller ones, have become increasingly dependent on intra-continental trade as product specialisation has proceeded and the use of imported components has become more important.[5] Moreover, it is not only the level of demand that determines the growth of production and trade, it is also technology and the rate of structural change. A study covering the period 1964-72 showed that a particularly high rate of economic growth had been achived by those OECD countries which had successfully promoted the production of " progressive " products, i.e. products with a growing world market, and de-emphasised " regressive " ones, i.e. those facing a stagnant or shrinking market.[6] The " index of specialisation " was particularly high in the case of Japan, while it was lowest in the case of the United Kingdom, which seemed almost to have concentrated on products whose markets were shrinking. Both imports and exports of developing countries have grown faster in recent years than those of industrialised countries. To a large extent this has been the result of increased oil prices, and also of a rise in the prices of other primary products and unusually favourable crops. Many oil-importing developing countries have in addition financed growing trade deficits through recycled oil money, provided as commercial credits by banks in the industrialised world. It is questionable whether this rapid growth can be sustained if demand in industrialised countries continues to be sluggish. The prices of some commodities other than oil are already flagging, and there are limits to the growth of commercial debts under conditions of slow economic growth and uncertainties regarding foreign trade and currency exchange rates.

A good deal of speculation has gone into the question of how the structure of trade in manufactures would change as a result of a new international division of labour between industrialised and developing countries. At one time it was argued by Western analysts that most light industry should become a preserve for developing countries, leaving heavy and advanced technology industries to countries which have already reached a high level of industrialisation. So far, structural change has not followed this pattern. Labour-intensive industries in the West, like textiles and electronics, have not been wiped out by competition from East Asia, but they have rapidly become more capital-intensive. Production and exports of textiles have increased in high-wage countries like the United States and the Federal Republic of Germany, but employment has been reduced as a result of capital deepening. Reduction of employment in textiles and clothing has been less significant in the United States than in the EEC, where about half a million jobs have disappeared in those industries over the past four years.

A very dramatic illustration of the role of technology is the case of the US calculator industry, which lost heavily to Japanese manufacturers in the later 1960s but made an impressive comeback in the early 1970s as a result of technological innovation and substitution of capital for labour. Industries do not disappear, but their product specialisation changes, as does their use of labour, capital and technology. The survival of Western industries in a competitive world market rests on the ability to adjust, i.e. on the versatility of management, technology and a skilled labour force, rather than on absolute advantages in terms of production costs and proximity to markets.

Developing countries have so far not fully utilised the export potential offered in the markets of industrialised countries by " progressive " products. Encouraged by well-meaning economic advice and assisted by finance from both government agencies and multinationals in the West, they have expanded heavily in products like textiles, clothing and footwear, which face a relatively sluggish market in the West and whose effective demand in developing countries is restrained by the slow growth of incomes among the impoverished masses. A 1977 UNCTAD study of " dynamic " manufacturing products illustrated this weakness in past export drives and pointed to a number of faster-growing non-traditional items, such as electronic, mechanical and electrical equipment and chemical and pharmaceutical products.[7] In these non-traditional exports, ability to adjust to the market is as important as advantages in labour costs.

In a longer time perspective it is likely that developing countries will expand their production along lines which more closely resemble those of industrialised countries. The UNCTAD Secretariat has also tried to assess how production and trade in manufactures will have to expand if developing countries are to reach the Lima Declaration target of 25 per cent of world manufacturing output in the year 2000. Even though the time span of 25 years may be unrealistically short in view of the vast increase in investment required in developing countries, the study draws an interesting picture of the structural change that may take place in international trade as the present low-income countries industrialise. Expansion would take place in heavy industries and in engineering products, where low wage costs would not represent such a decisive advantage as in the case of simple clothing and footwear, for instance.[8]

It is important to consider to what extent growing manufacturing output in developing countries will be absorbed by rising demand in those countries themselves. The UNCTAD study expresses doubts that this demand will rise fast enough to absorb a major share of output and at the same time leave room for the capital formation required. Growth of effective demand and savings in developing countries will to a large extent be constrained by bottlenecks and inertia in sectors other than manufacturing, particularly in agriculture. For the foreseeable future, then, the industrialised market economies will continue to represent the major outlet for the manufacturing exports of the less developed countries. With few exceptions, however, these exports will claim only a marginal share of the markets for consumer goods in industrialised countries.

But even a marginal import presence is risky in an environment of stagnating demand and shrinking employment. The past few years have seen the resurgence of protectionism in industrialised countries as a result of the problems described at the outset of this article. The protectionist measures have been directed principally at the imports of textiles, clothing and footwear from developing countries, and of colour television sets, ships and steel from Japan. As will be seen in greater detail in the concluding section of this article, however, protectionism is not easily limited to certain industries or countries once it has been introduced. The current trend towards protectionism could easily escalate into a trade war between industrialised countries in sensitive areas like shipbuilding, cars and steel. The effects of such a development on trade, production and employment could be very serious in developing as well as in industrialised market economies.

Exchange rates and capital movements

In theory, the abolition of fixed exchange rates should facilitate the adjustment of trade to differences between countries in demand, inflation and output. A deficit in international payments should be gradually eliminated by automatic devaluation of the exchange rate, which would improve the competitive position of exports, reduce imports and hence indirectly promote employment. The opposite reactions should occur in countries with a strong balance-of-payments situation, where the currency would gradually appreciate to a point where the surplus disappears.

In practice, however, this automatic adjustment has not taken place. Some of the reasons flow from the functioning of markets. In the markets for internationally traded goods and services, prices are not very sensitive to variations in exchange rates, owing to oligopolistic pricing, short-term inelasticities in demand and, to a lesser degree, in supply, and because a large proportion of international trade—perhaps as much as a quarter or even a third—takes place as internal transactions within multinational enterprises. In capital markets, short-term movements of capital speculating on continuing trends of devaluation and appreciation have contributed to widening imbalances in international payments. In this way, employment adjustment to trade has been hampered rather than facilitated by the practice of floating exchange rates. To make matters worse, a number of governments have directed domestic economic policy towards maintaining the imbalances rather than eliminating them.

Longer-term capital movements, in particular those of multinational enterprises, seem on balance to have strengthened employment in countries with rising exchange rates and low levels of unemployment, but at the same time to have worsened employment problems in deficit countries with high unemployment. As mentioned above, they have also improved the employment and export performance of certain low-wage countries. The dramatic rise in revenues of oil-exporting countries has to a large extent been recycled to deficit countries by way of commercial loans from Western banks. A development which merits particular attention is the sharp rise in the external debt of some semi-industrialised countries in Asia and Latin America, at an annual rate of around 40 per cent over the past seven years. To repay their debts, those countries will eventually have to develop surpluses in their trade balances with the rest of the world. If their efforts should be frustrated by protectionism in industrialised countries, a major debt rescheduling will eventually have to be undertaken.

2. Labour market adjustment measures

While the brunt of adjustment will always bear on industry, governments are trying in various ways to facilitate change by compensating those affected, or by helping individuals or enterprises to find alternative sources of income. In some cases, adjustment measures are anticipatory in the sense that they promote more competitive alternatives of employment in the expectation that existing production lines will lose out in international competition. As will appear from the following review of some existing programmes and policies, however, a number of policies relating to the structure and functioning of labour markets are designed to resist adjustment rather than to assist it. Their importance has tended to increase as a result of stagnating production growth and rising unemployment.

Specific trade adjustment programmes

A few governments have introduced schemes designed to assist firms or workers affected by changing trade patterns. In connection with the Kennedy Round of trade liberalisation in the early 1960s, the United States and Canadian Governments introduced general systems of trade adjustment to mitigate the expected effects of imports, in particular from other industrialised countries. The United States programme, which was part of the Trade Expansion Act of 1962, offered adjustment assistance as an alternative to trade protection and was hence intended to promote change. Its effectiveness in this respect, however, was very limited. The main reasons for this were, first, that the conditions for receiving assistance were very narrowly defined, requiring the claimants to prove that the injury in terms of sales or employment was due to a certain increase in imports, *and* that the import increase was due to a certain trade concession. Second, different elements of the programme were administered by different government departments, which caused long delays in the very few cases that managed to meet the strict requirements for eligibility.[9] Support offered under the programme comprised technical advice, loan guarantees and tax relief. Benefits provided to workers consisted of allowances amounting to 65 per cent of lost wages, for a maximum of 52 weeks (or longer if they took retraining courses).

The potential effectiveness of the programme was improved through the Trade Reform Act of 1974, when eligibility rules were greatly simplified and administration was centralised in the Department of Labor. However, the requirement of proof that an injury is caused by increased imports still seems to keep the programme from having much effect in practice. Elizabeth Jager of the AFL-CIO reported that, after one and a half years of operation, half a million workers had applied for relief but only 153,000 had collected anything at all.[10] In relation to the total adjustment effort of the United States economy, the impact of the programme was clearly not significant.

The Canadian General Adjustment Assistance Programme started out with more liberal conditions for eligibility than was the case in the United States, though it was restricted to enterprises. Special adjustment assistance for workers has been given in specific industries, however, i.e. textiles and clothing, tanning and footwear. The range of measures applied includes (for enterprises) loan guarantees for modernisation and scrapping and (for older workers) pre-retirement benefits. As in the United States, the coverage of the programme has been limited. It has mostly affected smaller and less efficient firms in low-wage and labour-intensive industries. There is no evidence whether those producers have managed to become more competitive as a result of adjustment-financed rationalisation.[11]

Legislation explicitly aiming to facilitate the restructuring of industry in order to smooth the way for imports from developing countries was introduced in December 1974 by the Dutch Government. Provisions include investment finance for the scrapping and modernisation of industries in a weak competitive position, and the retraining of workers. The law also provides for support to Dutch investors who are willing to transfer equipment from contracting industries to developing countries, provided this can be done without direct harm to employment in the Netherlands. It is still too early to judge whether the measures will succeed in restructuring industry and making it more competitive. Some concern has been expressed (for instance in the 1977 budget Bill) about the difficulty of demonstrating that adjustment assistance has actually benefited trade with developing countries in the industries concerned. It may well be that if the programme is intended both to make Dutch industry more competitive and to have positive development effects in the Third World, it will do a poor job of both. There may be cases, for instance, where production lines which become obsolete in the Netherlands should be either modernised or scrapped rather than transferred to less developed countries. The import liberalisation effects of the programme should of course be beneficial to developing countries, but it is difficult to avoid a situation in which the benefits become confined to those that are already quite advanced in industrial production. A fairly similar programme is presently being elaborated by the Norwegian Government.

At the international level the European Communities have set up special funds and issued directives to deal with adjustment problems arising from trade between Community members as well as from other, structural changes. The European Coal and Steel Community has helped to finance employment creation in certain areas, where the objective has been to find new economically sound activities for redundant coal and steel workers. These programmes, which were undertaken in co-operation with unions and employers' organisations as well as local authorities, seem to have succeeded in many cases in diversifying industry and making it more competitive.[12] The European Social Fund has been particularly active in the resettlement of workers in certain regions (see below). In view of present overcapacity problems, for instance in the steel industry, the Fund's resources have been doubled for the next three years.

Arrangements for redeployment in the case of major redundancies are mostly handled in the general framework of the employment exchange and labour market mobility systems. A common impression is that national labour administrations are more often than not understaffed and insufficiently informed to deal quickly and effectively with major redeployment cases. An interesting example of how such programmes can be organised jointly by public and private undertakings is the Canadian Manpower Consultation Service, which incorporates research and advance planning at plant level, a joint labour-management approach to adjustment plans, and co-ordination of public and private adjustment measures.[13]

Restructuring programmes for specific industries

Government intervention and incentives to promote restructuring of specific industries are not always prompted by a need to adjust to international trade. The most heavily controlled and subsidised industries, e.g. agriculture and armaments, are generally the most protected ones, and their restructuring is guided by objectives such as national security and self-sufficiency in production. Protectionism and intervention are spreading in wider circles around those industries, and in particular to advanced technology industries (space, aircraft, computers, etc.). The rationale for government control is given as a desire to retain initiative in the technological development of these industries, as well as in others which are linked to them. These policies represent resistance to change rather than adjustment, and they have important indirect effects on the ability of other sectors to adjust, and on the rate of growth in the economy as a whole.

A somewhat more adjustment-oriented approach has been taken by governments supporting the restructuring of their shipbuilding industries, though the net effect of such programmes has so far been to strengthen the rearguard action against the changes in comparative costs and efficiency among producer countries. Support has mostly been given in the form of loans, grants and export subsidies. Some countries, e.g. the United Kingdom, the Federal Republic of Germany and Sweden, have brought pressure to bear on the industry to solve its own problems by way of mergers and rationalisation arrangements between firms. These measures may have increased cost effectiveness in some countries, but in the global context the industry is still plagued by overcapacity. Only a few countries, e.g. the Netherlands and Sweden, have drawn up plans for an orderly reduction of capacity.

In some cases, like the United Kingdom in 1964 and France in 1970, governments have set up industrial rationalisation corporations to give financial and technical support to industrial restructuring. There are also instances, as in Italy, France and Sweden, where state-owned enterprise has played a catalytic role in bringing about mergers and rationalisation in an industry. Specific programmes with restructuring objectives directed to smaller enterprises have been in operation in France, the Federal Republic, Italy and Japan. They seem to have had positive effects as regards maintaining employment in the short run, but their effects on longer-term growth and adjustment to trade are more questionable. Smaller enterprises are often more inert than larger ones in responding to changes in trade and technology, for reasons connected with management and marketing as well as finance.[14]

Industries of particular importance to the present exports of developing countries are textiles, clothing and footwear. These are subject to specific intervention in many OECD countries, not only because of the trade adjustment problem but because of internal problems of efficiency, inertia, low wages and high intensity of labour. The latter problems have in many cases been aggravated by protective measures in the form of trade restrictions and subsidies, which have given rise to an efficiency gap between these industries and others, a gap which may now be so wide that it cannot be closed without seriously affecting employment.[15]

The most adjustment-oriented policies of all were probably those adopted by Japan after the United States introduced " voluntary " export restrictions on Japanese textiles in 1971. Government support was given to modernisation and to scrapping old plants as well as to mergers of companies. The Government actually went to the extent of buying up some enterprises in order to terminate production. Support was also given to the development of new markets to replace those lost in the United States.

The United Kingdom has operated special programmes designed to assist the restructuring of the textile industry since 1959. Grants have been given for scrapping old plant, and loans and subsidies to firms investing in new plant. From time to time attempts have been made to promote mergers and to help the industry solve its problems from within. The industry has also benefited from support to depressed areas. In the case of the wool textile industry, scrapping grants were combined with other support for increasing productivity and redeployment of manpower in a manner that has been described as a very progressive restructuring scheme.[16] What remains of the industry is more capital-intensive, competitive and profitable than before, but a number of problem firms remain.

Behind the specific measures to support labour-intensive industries there is often a conviction that they could become competitive if they were to move away from bulk production of such items as shirts, blouses and simple footwear and concentrate on items which have a higher degree of sophistication, imagination or adaptation to local preferences. This idea may be theoretically sound, and it has indeed enabled a number of large-scale conglomerates not only to stay alive but even to prosper. Again, the problem seems to rest with the medium- and small-scale producers, and the policy measures which have been tried have not been vigorous or imaginative enough to help them overcome their problems.

Employment programmes for depressed regions

Employment incentives to enterprises in specific geographic regions are common practice in most European countries, while they are uncommon in North America. In Japan a regional support programme has been developed only recently. The incentives are mostly of a type which encourages capital investment, i.e. subsidised loans or grants for machinery and buildings, tax allowances and the like. In some cases, particularly in the United Kingdom and Sweden, subsidies are also being given in a manner which lowers labour costs to the employers. From the point of view of adjustment to trade, both capital and labour subsidies have a tendency to introduce inertia. Labour subsidies, which are generally more effective in stimulating employment, tend to become a life-sustaining drug for labour-intensive industries, which are often less efficiently managed than other sectors of industry. Competition from subsidised garment producers in some European countries is in many cases a more serious threat to firms in other European countries than are the low-wage countries. Even when the support is only temporary or initial, as in the case of investment subsidies, government involvement sometimes creates political stakes which make further support and protective measures necessary.

Generally speaking, discretionary measures can be more cost-effective than indiscriminate support to all industrial activity in the region, since they can be concentrated on cases where expansion would not take place without subsidies. The emphasis on discretionary measures differs from country to country, being high in France, Italy and the Federal Republic of Germany and lower in the United Kingdom, Sweden and Japan. From the point of view of trade adjustment, general measures affecting all firms in the region would give less room for disguised protectionist measures than support that is given on a case-by-case basis. A study of the Belgian system of support for companies in scheduled areas showed that, even where support had been given for product diversification with a view to strengthening the competitiveness of recipient firms in relation to imports, the effects on the product mix and cost efficiency of the firms were in most instances insignificant. This was in particular the case with the textile industry.[17]

Another aspect of relevance in the present context is the size of the population centres eligible for support. Geographical mobility of labour is constrained by several factors, though modern means of communications have increased the radius within which a worker can change jobs without moving house. One such factor which is likely to grow in importance in coming years is the rising participation rate among married women. To enable workers to change jobs without moving, the area in which they live should not only have a certain minimum population but also a diversity of economic activity making it possible for expanding industries to absorb workers who are forced out of contracting ones. This is recognised in the Federal Republic's programme for regional support, which is limited to a certain number of so-called growth centres. By contrast, the policy in Sweden and Norway has been to encourage industrial dispersion, regardless of the size of the population centre. To the extent that these policies manage to keep industries scattered in a vast number of very small centres, they are likely in the long run to create difficult adjustment problems for both capital and labour when changes in trade, technology or demand force these dispersed enterprises either to make radical changes in their line of production or to go out of business.

3. Some policy options

Trade liberalisation

One way out of the vicious circle of stagnating output and creeping protectionism would be to try and revive the world economy by removing the barriers to trade, in the belief that this would spread the impulses of growth more rapidly from one country to another than present strategies and in a manner which would at the same time be less inflationary.[18] In a situation of stable growth and low levels of unemployment, a radical liberalisation strategy would have considerable appeal to broad sections of the population. Large groups of consumers would enjoy the benefits of cheaper imports, and those workers who were laid off in less competitive industries could be given new and often better jobs in expanding sectors. The gains from trade expansion would appear immediately and would be sufficient to compensate those who lost out in the first round.

Under conditions of stagnation, however, the gains from trade liberalisation would go to consumers by way of lower prices, while laid-off workers would have little chance of finding new jobs. This means in fact that a minority of workers—often the lowest-paid and most vulnerable—would suffer a reduction in living standards so that more fortunate consumers could purchase certain commodities more cheaply. Governments may or may not be impressed by this type of ethic, which runs counter to the solidarity principles of trade unions, but they are more susceptible to public pressure to protect employment when the threat comes from abroad than when it comes from local producers.

In addition, it would be plainly suicidal for one country unilaterally to go in for trade liberalisation in a situation of general overcapacity and unemployment. When everybody else is practising various forms of protectionism and there is a potential oversupply of manufacturing products, a lonely free-trader runs the risk of becoming swamped with surplus production at dumping prices. Trade expansion resulting from liberalisation must clearly be based on reciprocal arrangements between at least the major trading partners if it is to bring about widespread revival of production and employment, a fact which is recognised by the above-mentioned GATT study.[5] It would also have to be supported by restructuring and adjustment policies of a type which will be discussed further on.

Resistance to adjustment

The opposite strategy would be to try and ward off the influence of world market prices which threaten employment in the domestic market. This would be done by import quotas, price regulations or tariffs, or by subsidies to local producers. A well-known example of such a strategy is the agricultural policies of most industrialised countries, through which consumers have paid the price for protecting the employment and living standards of a minority of the population, i.e. the farmers.

What could be done in farming, however, is not done so easily, let alone at such low cost, in manufacturing. The manufacturing sector is not only bigger, but more complex and interdependent. If one tries to limit protectionist measures to products which are sensitive from the point of view of employment, this will adversely affect the competitive position of import-competing or exporting industries which use the protected product as an input. Protection or subsidies will have to be extended to those other industries as well, if they are not to be priced out of the market. In this way, protection will spread in wider circles around the protected products. Investment and subsidies will be drawn to the least productive and slowest-growing industries rather than to those with a higher potential for expansion, and growth will be further retarded. Moreover, other countries are likely to retaliate by restricting their own imports in areas which may be sensitive to the exports of the country which initiated the process. In the end, protectionism may destroy an even greater number of jobs than it was intended to save.[19] In addition, prices will rise faster than in a situation of productivity growth and free trade.

Protectionist measures could also be directed exclusively against one country or a group of countries, particularly countries which have an export surplus in relation to the country that wants to resist adjustment. In this case, retaliation by compensatory import restrictions would be less likely or effective. Examples of this type of measure are the " voluntary " export quotas imposed on Japanese exports of colour television sets to the United States, and on a number of less developed countries in exporting textiles and clothing to Western Europe. The rationale for discriminating among producers has nothing to do with employment effects in the importing countries, and discrimination often leads to production being shifted to countries which are less efficient. A reason which has sometimes been given for discriminating among developing countries is that industrial development should be promoted among the least developed of them, since late starters will otherwise not get access to the markets. It makes little sense, however, to invite newcomers to join a game where the rules can be arbitrarily changed by the other side. Besides, if developmental goals alone were to guide co-operation with the least developed countries, they should be encouraged to concentrate on more dynamic products than textiles.

Selective restructuring of industry

In their radical form, neither of the two strategies outlined above seems to offer a workable solution to the problem of breaking out of the vicious circle of unemployment and protectionism. One can think of an alternative strategy, however, which would rely on a certain degree of government intervention in trade and industrial restructuring, and which would serve the purpose of creating employment and progressively widening the scope for trade liberalisation. To bring about such effects, the strategy would have to rest on economic policy co-ordination between at least the major industrialised countries, it should place emphasis on creating employment in dynamic industries rather than in contracting ones, and it should be supported by labour market policies which facilitate structural change.

Co-ordination of economic policy. Imbalances in payments between industrialised market economies are so wide that it is necessary for more vigorous steps towards reviving demand to be taken in the surplus countries than in the deficit countries. The Trade Union Advisory Committee to the OECD (TUAC) has suggested that this revival be initiated by using the wealth of surplus countries to expand their tertiary sector employment, in particular in public services where expansion is required to meet people's basic needs. The ensuing demand expansion would affect manufacturing industries even in other countries, and the payments imbalances would shrink as the world economy resumed a more rapid rate of growth.[20] In addition to the measures advocated by TUAC, international agreement should also be sought on output limitations in industries with a medium-term overcapacity problem, like steel and shipbuilding.

Emphasis on dynamic lines of production. Too much government support is presently directed towards low-productivity and stagnating industries. The emphasis should be shifted towards dynamic lines of production, including such facilities as finance, skill formation, research and development. More emphasis should also be given to services. Less productive or competitive producers should be encouraged to modernise and be given scrapping assistance. This programme of structural transformation should preferably be monitored by organisations representing both sides of industry.

Labour market policies to promote change. If labour market policy is to promote rather than resist adjustment, it should be directed towards expansion of dynamic industries and enabling workers to leave contracting industries. In most countries this calls for a considerable extension of training and retraining facilities, which should be open to workers in stagnating industries even when they are not immediately threatened by unemployment. In countries with a serious mismatch between vacancies and jobseekers, retraining will have to go beyond short skill improvement courses to encompass more fundamental educational tasks. The government machinery for placement and labour market information must be expanded, and its operation should be monitored by the labour market parties.

With a combination of these types of measures, the industrialised market economies would be able to revive employment growth at the lowest possible rate of inflation. Since employment is increased through measures which improve productivity in manufacturing, it will be easier for governments to free international trade from protectionist restrictions. Some more specific anti-dumping controls than at present would have to be introduced, but these should be non-discriminatory rather than based on arbitrary export quotas and should preferably be laid down in international agreements under GATT supervision.

Developing countries would serve their own interest as well as that of global trade expansion by diversifying their manufacturing exports and shifting from import substitution to export-oriented industrialisation. Whether it is undertaken on a regional or a global basis, a liberalisation of trade between developing countries would stimulate the growth of manufacturing and would reduce the dependence of participating countries on markets in the industrialised world. Export diversification should aim to avoid new protectionist traps by relying on products in which the market shares of individual exporters would be small, and it should shift the emphasis from products with stagnant or problem-ridden markets to more dynamic products with a potential for employment creation.

Notes

[1] This approach has been used by Angus Maddison in "Phases of capitalist development", in *Banca Nazionale del Lavoro Quarterly Review* (Rome), June 1977, pp. 103-137.

[2] W. R. Böhning: *Future demand for migrant workers in Western Europe* (Geneva, ILO, 1976; mimeographed World Employment Programme research working paper; restricted).

[3] OECD, Directorate for Social Affairs, Manpower and Education: *Full employment problems and policies in the medium term*, Trade Union Seminar on Employment Policies, Incomes and Growth in the Medium Term, Paris, 12th-14th October 1977.

[4] Ibid.

[5] See R. Blackhurst, N. Marian and J. Tumlir: *Trade liberalization, protectionism and interdependence*, GATT Studies in International Trade, No. 5 (Geneva, 1977).

[6] Groupe d'études prospectives internationales (GEPI): *Scenario of the location of industries at the international level in 1985*, Paper presented to ECE Seminar on Factors of Growth and Investment Policies, Budapest, 13-18 December 1976 (doc. EC.AD./SEM.4/R.6). See also United Nations, Economic Commission for Europe: *Structure and change in European industry* (New York, 1977), p. 79.

[7] UNCTAD: *Improving the capability of the developing countries to supply exports of manufactures and semi-manufactures.* Dynamic products in exports of manufactures from developing countries and territories to developed market-economy countries, 1967-1975, Note by the Secretariat to the Committee on Manufactures (Geneva, doc. TD/B/C.2/178, 1977).

[8] UNCTAD IV: *The dimensions of the required restructuring of world manufacturing output and trade in order to reach the Lima target* (Nairobi, doc. TD/185/Supp. 1, 1976).

[9] Charles Frank Jr.: " Trade adjustment assistance in the United States ", in OECD: *Adjustment for trade: studies on industrial adjustment problems and policies*, Development Centre Studies (Paris, 1975), p. 230.

[10] Elizabeth R. Jager: " A realistic approach to world trade ", in *AFL-CIO American Federationist* (Washington), Jan. 1977, p. 5.

[11] G. K. Helleiner: " Manufactured exports from less developed countries and industrial adjustment in Canada ", in OECD: *Adjustment for trade . . .*, op. cit., pp. 241-281.

[12] Commission des Communautés européennes: *La reconversion des charbonnages dans le Limbourg néerlandais*, Cahiers de reconversion industrielle, No. 17 (Brussels, 1971).

[13] On this and other redeployment schemes see S. Zottos: " Adjustment assistance measures ", in ILO: *Tripartite World Conference on Employment, Income Distribution and Social Progress and the International Division of Labour: background papers* (Geneva, 1976), Vol. II, pp. 79-90.

[14] See for instance A. Whiting: " Overseas experience in the use of industrial subsidies ", in Department of Industry, United Kingdom: *The economics of industrial subsidies*, ed. Alan Whiting (London, HM Stationery Office, 1976), pp. 45-63. Regarding Japan, cf. Seuo Sekiguchi: "Industrial adjustment policies in Japan", in OECD: *Adjustment for trade . . .*, op. cit., especially pp. 293-295.

[15] For a general study of cost effectiveness in the textile industry see Jacques de Bandt: " Structural adjustment in the textile industries: costs and benefits ", in OECD: *Adjustment for trade . . .*, op. cit., pp. 29-56.

[16] J. Hughes: *Industrial restructuring: some manpower aspects*, National Economic Development Council Discussion Paper 4 (London, 1976), Ch. 4.

[17] P. K. Mathew Tharakan: " Adjustment policy and process in Belgium ", in OECD: *Adjustment for trade . . .*, op. cit., pp. 97-137. For a review of different national support programmes see Whiting, op. cit.

[18] The case for a radical liberalisation of trade is very ably presented in Blackhurst, Marian and Tumlir, op. cit., Section III.

[19] See for instance W. M. Corden, I. M. D. Little and M. F. G. Scott: *Import controls versus devaluation and Britain's economic prospects*, Guest Paper No. 2 (London, Trade Policy Research Centre, 1975).

[20] Trade Union Advisory Committee to the OECD: *The need for an alternative growth scenario and a new policy* (Paris, doc. RE/TUAC/77.4, 1977).