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Full employment in OECD countries: Why not?

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Full employment has always been a major objective of socio-economic policy in the OECD countries. Between the mid-1950s and the mid-1970s that objective had been achieved in practically all of these countries, but the situation, as we know, has rapidly deteriorated since then. Were those "golden" 20 years, then, a historical accident, or were they the result of deliberate government policies and the constructive behaviour of labour and management? We shall argue here that the latter is the right explanation and try to show that sound government policies and responsible action by both sides of industry could bring about full employment again.

We shall first look at the overall trends in employment and unemployment in a number of OECD countries. The bulk of the article will then be devoted to a discussion of the main factors determining employment prospects in these countries: it will examine, inter alia, why some of the smaller countries in Europe – but outside the EEC – have a much lower unemployment rate than others. Finally, we shall see what conclusions can be drawn from our analysis.

I. Trends in employment and unemployment

Unemployment has increased enormously since the early 1970s, registering particularly sharp rises in the wake of the two oil crises. Between 1973 and 1975 the average OECD rate shot up from 3.5 per cent to 5.2 per cent and between 1979 and 1983 it almost doubled, from 5 per cent to nearly 9 per cent. In 1985 the rate of unemployment in the OECD countries as a whole was estimated to be 8.2 per cent; in other words, there were more than 31 million persons unemployed.

The rate of unemployment is lowest (between 1 and 4 per cent) and has risen least in Japan, Norway, Switzerland, Austria and Sweden. It is highest (between 13 and 20 per cent), and has risen by more than 10 percentage

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points since 1973, in Belgium, the Netherlands, Ireland, the United Kingdom, Spain and Turkey. The rates in the other OECD countries fall in an intermediate range: they are fairly low in the United States and fairly high in the Federal Republic of Germany, France and Italy.

All of these percentages underestimate the underutilisation of labour. First of all, there is a great deal of "hidden" unemployment, i.e. people who because of widespread unemployment are being taken care of by the social security system (in the Netherlands and in Italy, for example). There are also many (often younger) employees who have been enrolled in special job-creation projects (as in Sweden) or in training schemes (as in France and the United Kingdom). Each of these latter groups often makes up 2 to 4 per cent of the labour force. Whether or not they should be considered unemployed is not clear, since it can be argued that they are not available for employment. On the other hand, people are often "placed" in these projects simply because they would be unemployed otherwise. There are also many people who have given up looking for work, especially women, either because none is available (as in the Netherlands where the participation rate of women is low) or because cultural values prevent women from seeking a job when the business cycle turns down (Japan). This group can account for between 0.5 and 2 per cent of the labour force. Finally, there are many people (forming another 0.5 to 2 per cent of the labour force) who are working part time but would prefer to work full time (as in the United States), or who would like to work fewer than 25 hours a week but are unable to find such work, and in both cases are not registered as unemployed. Unemployment statistics can also overestimate the underutilisation of labour – for example, when people draw unemployment benefits even though in reality they have a (clandestine) job. However, this is a much smaller group than the other three. It is probably not an exaggeration to say that official unemployment rates in many countries underestimate the real underutilisation of labour by 5 to 6 per cent.

Generally speaking, increased unemployment can be explained by four factors[1] (the first two being mainly "external" and the last two "internal"):

1. The growing international uncertainty during the 1970s, which made investment a risky business. That uncertainty was caused by rising inflation, strongly fluctuating exchange rates and corresponding fluctuations in real interest rates.

2. The profound changes in international trade flows, the increased competitive power of Japan and the newly industrialising countries (NICs) and the quick growth of labour productivity have all resulted in the loss of many jobs in traditional industry – both in the United States and in Europe.

3. In many – particularly European – countries there are numerous sectors where labour costs have risen faster than productivity, resulting in labour shedding in industry and the creation of fewer jobs in the private services sector than would otherwise have been the case.

Table 1. Percentage increases in employment, labour force, gross domestic product and productivity between 1973 and 1983 with additional productivity data for 1984 and 1985

Country	Civilian employment	Labour force	Gross domestic product	Annual labour productivity increase (GDP/employment)		
				1973-83	1984	1985
	(1)	(2)	(3)	(4)	(5)	(6)
Canada	22.5	31.0	26.1	0.3	2.1[1]	1.5[1]
United States	18.5	23.4	20.1	0.1	2.6[1]	1.0[1]
Japan	9.0	10.6	43.9	2.9	5.2[1]	3.7[1]
France	1.6	7.8	25.4	2.3	2.7	2.0
Germany (Fed. Rep.)	-6.5	1.1	17.5	2.3	2.8	2.3
Italy	6.8	10.8	19.4	1.1	2.1	2.0
United Kingdom	-5.0	4.5	11.0	1.6	0.9	2.0
Australia	9.1	18.1	27.9	1.6	...	...
Austria	-0.9	2.4	26.2	2.4	2.1	2.2
Belgium	-3.9	7.4	18.2	2.1	...	...
Denmark	2.1	11.5	17.0	1.4	...	...
Netherlands	6.5	18.5	14.7	0.7	...	...
Norway	18.3	20.5	45.8	2.1	3.6	0.7
Spain	-15.0	1.9	21.9	3.7	...	...
Sweden	8.9	10.0	16.5	0.7	2.2	1.8
Switzerland	-6.5	-5.7	3.3	1.0	2.7	2.2

[1] Gross domestic product.

Sources: *Labour Force Statistics* and *National Accounts* (Paris, OECD), various years. Data for Belgium, Denmark and the Netherlands are from Eurostat (Luxembourg). Data for 1984 and 1985 are from *Economic Outlook* (Paris, OECD), June 1985.

4. In order to cope with the effects of the first oil crisis many governments tried to change course by adopting an expansionary policy, which led to increased employment in the public sector until the late 1970s. It eventually also led to large government deficits because it did not produce the expected increase in production. At the same time inflation rose rapidly so that by the end of the 1970s many governments felt compelled to pursue a restrictive monetary policy. The resulting stagnation (or decrease) in domestic demand (and international trade) accounts for the sharp increase in unemployment between 1979 and 1982. Since then unemployment has continued to increase in Europe (though not so fast) as most governments maintain their restrictive monetary stance.

Table 1 summarises the trend in a few key variables – civilian employment, the labour force, gross domestic product (GDP) and productivity – in a number of OECD countries between 1973 and 1983. It brings out striking differences between countries. In some, such as Australia,

Canada, the Netherlands, Norway and the United States, labour supply increased by around 20 per cent or more while in others, such as Austria, the Federal Republic of Germany, Spain and Switzerland, the increase was less than 3 per cent. Japan and Norway attained a very high GDP growth rate (over 40 per cent) during that period, while Switzerland had the lowest, with only 3.3 per cent. Employment creation was highest in North America and Norway, while Spain registered a decrease of 15 per cent. The fourth column, showing the annual increase in productivity, also reveals considerable differences between countries in the employment-generating effect of economic growth. In North America a 1 per cent growth rate results in a roughly 1 per cent increase in employment, while in many European countries and Japan a growth rate of 2-3 per cent is needed to obtain the same result. The fifth and sixth columns show that these ratios changed little in 1984 and 1985. The increase of productivity in North America has to be attributed partly to cyclical influences.

Admittedly, the statistics in table 1 are very rough; for one thing, they do not take into account the reduction of average working time or the increase of part-time work. But they allow us to draw at least one conclusion: for many countries (particularly in Europe) the expected economic growth (2-3 per cent a year) will not be sufficient to reduce unemployment substantially. More employment-intensive growth will be necessary for that to happen. This brings us to employment policy.

II. Employment policy

In this section we shall discuss four key variables that determine employment prospects in industrialised market economies: labour supply, structural and technological change, the functioning of the labour market, and macro-economic policy.

1. Labour supply

Over the next ten years labour supply will increase much less rapidly than it did during the previous decade because the "baby boom" of the 1950s and 1960s has now reached the labour market. Population forecasts for the age group between 15 and 64 show that the demographic pressure will be less than half of what it was during the past ten years (see the last two columns of table 2). It is also probable that international migration will continue to decline, as it started to do during those years.

It is not so easy to forecast how the labour force participation rates of men and women will evolve. Over the past ten years male rates have decreased while female rates have increased sharply in most countries, despite the recession.

Many men – particularly in Europe – take advantage of opportunities afforded them to leave the labour market before reaching the age of 65, in some cases because of poor health and in others because early retirement is

Table 2. Labour force participation rates, part-time employment and the increase of the labour force (in %)

Country	Labour force participation rates				Part-time employment in total employment		Increase in population aged 15-64; excluding migration	
	Men		Women					
	1975	1984	1975	1984	1973	1983[1]	1975-85	1985-95
Canada	86.2	84.5	50.0	61.2	20.3[2]	26.2	17.6	9.2
United States	85.4	84.9	53.2	62.8	23.8[3]	23.3[3]	14.1	7.2
Japan	89.7	88.3	51.7	57.2	14.7	21.1	8.9	6.0
France	84.3	77.4	51.2	54.7	14.7	20.1	10.4	2.8
Germany (Fed. Rep.)	87.0	79.3	49.6	49.4	24.4	30.0	8.6	–3.7
Italy	84.2	79.7	34.6	41.1	14.0	9.4	6.4	1.0
United Kingdom	92.1	87.6	55.1	59.0	39.1	42.4	4.5	0.5
Australia	89.3	85.6	49.6	52.7	27.3	35.9	19.6	13.4
Austria	86.8	79.9	53.3	53.0	15.6	19.8	8.9	–1.0
Belgium	83.5	77.8[4]	44.0	49.6[4]	10.2	19.7	7.4	–0.5
Denmark	89.8	87.6[4]	63.5	74.2[4]	45.1[2]	44.7	5.4	2.7
Netherlands	83.2	80.1[4]	31.0	39.8[4]	26.2[5]	50.3[5]	13.8	4.0
Norway	85.9	86.3	53.3	66.1	47.6[2]	54.8	6.7	4.4
Spain	92.5	78.6	32.4	32.7	...	...	13.0	7.6
Sweden	89.2	85.5	67.6	77.4	38.8	46.2	2.6	0.6
Switzerland[6]	97.5	89.9[4]	49.6	48.8[4]	...	...	3.6	–3.3

[1] The number of non-declared persons in the 1983 data for the EEC countries is distributed proportionally between full-time and part-time employment. [2] 1975. [3] Part-time workers for economic reasons are excluded from both part-time and total employment. [4] 1983. [5] Data for 1983 are not comparable with earlier years because of change in definition. [6] Population data exclude some foreign seasonal workers who are included in the working population.

Sources: *Employment Outlook 1985* (Paris, OECD); and United Nations: *World population prospects: Estimates and projections as assessed in 1982* (New York, 1985).

actively promoted. This tendency is especially noticeable in Austria, Belgium, France, the Federal Republic of Germany, Italy, Spain and Switzerland. On the other hand, the number of (married) women seeking employment has increased enormously. Their labour force participation rates have shown striking increases in Canada, Denmark, Norway, Sweden and the United States in particular. With more women entering the labour force, the proportion of part-time employment is increasing in many countries as well (see the fifth and sixth columns of table 2). Labour force participation rates of women are still low in Greece, Ireland, the Netherlands and Spain but even here they are now rising rapidly (except in Spain).

It seems probable that female labour force participation rates will continue to increase, though perhaps not as swiftly as they did over the past ten years. The trend for a growing number of people to take early retirement will probably continue too (despite the costs to society), with the result that male labour force participation rates will drop still further. Whether part-

time work will continue to expand at the same pace is partly a matter of definition since the normal working week in ten years' time may well be less than 35 hours.

2. Structural and technological change

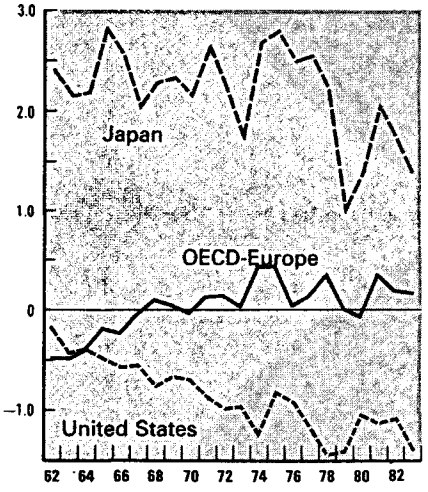
There is much controversy at present about the impact of new technologies on employment. Their introduction normally results in increased productivity and hence reduced employment opportunities in the short and medium term. However, new technologies can also open up new markets for cheaper or higher quality products and services, giving a boost to consumer expenditure and strengthening the country's or the enterprise's competitive position. In the long run, therefore, new technologies create both economic growth and employment.

For some time European enterprises and governments underestimated the structural and technological changes occurring in the world economy. As a result, European enterprises have often not yet caught up with the more advanced technology being used in many North American and Japanese enterprises. Moreover, both European and North American enterprises seem to be lagging behind Japan in the fields of marketing and management.[2] The European Community is attempting to make up the technological backlog through its "Esprit" and "Eureka" programmes.

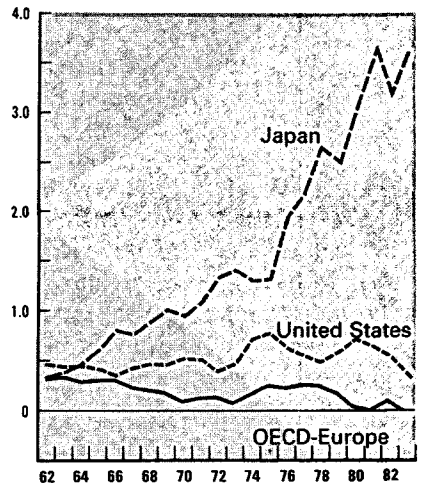
European industrial exports as a whole, and to a lesser extent those of North America, are becoming increasingly similar to those of the NICs. As the figure shows, the European trade balance in low technology goods and services is improving as is its trade balance in food products and raw materials. Europe is therefore operating on an international market for industrial products and raw materials where it will face increasingly stiff competition from the NICs. If European countries do not succeed in renewing their products technologically, their wage levels are bound to move closer to those of the NICs. By contrast, Japan's trade balance surplus is increasingly concentrated in medium and high technology and this renders it less vulnerable to such competition.

Between 1950 and 1975 the proportion of self-employed persons in the total OECD labour force dropped from about 30 to 20 per cent while the proportion of employees increased correspondingly, mainly as a result of expanding employment in large enterprises and the government. Since the mid-1970s, however, the situation has changed somewhat. The employment boom in the government sector came to a halt and in several countries the proportion of people working in small and medium-sized enterprises has increased. This is probably due to the greater ease with which small enterprises adjust to changing economic circumstances and the fact that many of the unemployed endeavour to create work for themselves. In the United States, for example, enterprises with fewer than 100 employees accounted for 36 per cent of employment in 1976, but for more than 50 per

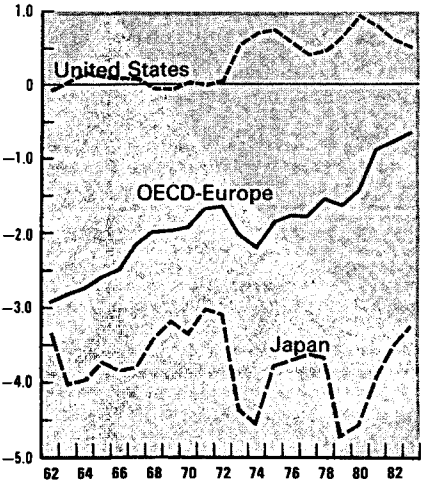
The response of trading patterns to technological change, 1962-83



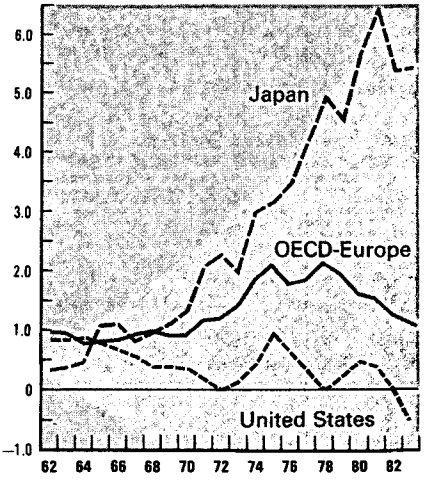
Trade balance in low technology products (ISIC classification, % of GNP)



Trade balance in high technology products (ISIC classification, % of GNP)



Trade balance in food and raw materials[1] (SITC classification, % of GNP)



Trade balance in medium technology products (ISIC classification, % of GNP)

[1] Excluding energy.

Source: *Economic Outlook* (Paris, OECD), June 1985.

cent of the increase in employment between 1976 and 1980. During the 1980-82 recession it was only in small enterprises with fewer than 20 employees that employment gains were registered (about 1 million jobs). Similar patterns were observed in the United Kingdom and France. Since the beginning of the 1980s job losses in large enterprises in France have been more than offset by new jobs created in small enterprises. In some countries, such as the Netherlands, the erosion of employment in small and medium-sized enterprises has continued because of contracting markets caused by a slump in domestic demand.

There is a growing awareness in many countries that small enterprises have the potential to create many more jobs than they have in the past. They could be assisted in this by such central government measures as credit and tax facilities, a change in the orientation of some school curricula, incentives to stimulate entrepreneurship and other creative economic behaviour, and relaxation of some of the formalities that act as an obstacle to the creation of new enterprises, as well as by local and regional government initiatives (directly managed or supported by the local authorities) to promote local employment.

3. The functioning of the labour market[3]

The functioning of the labour market (or rather its malfunctioning) is undeniably one of the causes of current unemployment. The debate about labour market flexibility usually revolves around three factors: the mobility of labour, the flexibility of labour costs and the flexibility of labour input. We shall argue here that the malfunctioning of the labour market is due chiefly to the lack of labour cost flexibility. We shall also examine what conditions are necessary to ensure that a reduction of working time will lead to a better distribution of employment (and income).

Labour mobility

One of the explanations for the failure of the labour market to function properly is that people are not prepared to move or to change jobs. When economic conditions are bad, workers tend to cling to the job they have and are reluctant to run the risk of a change. It has also been found that families with two income earners are less willing to move than those with one, since it is more difficult to find two jobs in a new city than it is to find one. In table 3 we have calculated the number of vacancies as a percentage of registered unemployment in some OECD countries. These figures do not give a wholly accurate picture of the tightness of the labour market because the number of vacancies is probably underestimated. One of the reasons for this is that in times of high unemployment some employers fail to register vacancies, partly to avoid pressure from employment agencies to take on unemployed persons who do not meet their requirements. Even so, in most countries with high

Table 3. Vacancies as a percentage of registered unemployment (1981-84)

Country	1981	1982	1983	1984
Belgium	1.1	0.9	1.2	1.6
France	3.9	4.2	3.9	2.0
Germany (Fed. Rep.)	16.3	5.7	3.4	3.9
Japan	50.9	43.3	42.0	46.8
Netherlands	4.4	1.7	1.2	1.9
Norway	22.9	12.1	5.2	6.5
Spain	0.7	0.7	0.8	0.9
Sweden	51.0	24.8	22.7	31.6
Switzerland	201.7	47.7	19.4	19.6

Source: *Main Economic Indicators* (Paris, OECD), various years.

unemployment the ratio of vacancies to unemployed persons is very small and hence it is not reasonable to assume that greater geographical or occupational mobility would make an appreciable dent in unemployment. However, it is true that there is a shortage of skilled labour in certain segments of the labour market, such as those employing new technologies.

Labour cost flexibility

Several writers[4] have demonstrated that during the 1970s labour costs in many sectors (particularly in Europe) rose faster than labour productivity. The fastest growing component of labour costs was contributions to social security and private pension funds.[5] The situation has changed somewhat in the 1980s as a result of wage moderation (see table 4), though so far this has not led to any real growth in employment since investment remains at a relatively low level. Table 4 also shows that there is a relationship between wage moderation in the United States, a trend that goes back as far as the 1960s, and the creation of new employment. That relationship is not found in Japan because labour costs there have risen considerably faster over the past ten years than the GDP. Employment nevertheless expanded because the capital stock increased much faster than in other OECD countries.[6] In Europe the inverse relationship between labour costs and employment seems to exist. Between 1973 and 1983 Europe was not able to create more employment even though it had about the same growth rate as the United States.

If we look at the small countries in Europe that have succeeded in keeping unemployment down, we find that labour costs in Austria and Switzerland have risen very fast (in comparison with GDP). While this has caused a reduction in employment, it has not led to a much higher level of

Table 4. Gross domestic product, labour costs and civilian employment (1973 = 100)

Country	Gross domestic product			Real labour costs per employed person			Civilian employment		
	1973	1981	1983	1973	1981	1983	1973	1981	1983
United States	100.0	120.2	120.1	100.0	101.2	101.5	100.0	118.0	118.5
Japan	100.0	135.6	143.9	100.0	146.0	155.4	100.0	106.1	109.0
Western Europe [1]	100.0	117.7	119.9	100.0	122.9	124.0	100.0	100.4	99.0
Austria	100.0	122.4	126.2	100.0	133.5	136.8	100.0	102.8	99.1
Belgium	100.0	116.4	118.2	100.0	133.5	134.4	100.0	98.5	96.1
Denmark	100.0	111.4	117.0	100.0	116.2	117.2	100.0	101.2	102.1
France	100.0	121.7	125.4	100.0	134.6	136.5	100.0	100.7	101.6
Germany (Fed. Rep.)	100.0	117.5	117.5	100.0	124.3	123.9	100.0	96.9	93.5
Italy	100.0	121.4	119.4	100.0	120.1	120.9	100.0	108.2	106.8
Netherlands	100.0	116.1	114.7	100.0	108.0	105.6	100.0	108.0	106.5
Norway [1]	100.0	140.0	145.8	100.0	107.7	109.2	100.0	116.8	118.3
Spain	100.0	118.3	121.9	100.0	142.3	142.7	100.0	86.0	85.0
Sweden [1]	100.0	112.7	116.5	100.0	113.8	107.3	100.0	108.9	108.9
Switzerland [1]	100.0	103.8	103.3	100.0	116.5	120.5	100.0	95.3	93.5
United Kingdom	100.0	105.4	111.0	100.0	107.2	111.0	100.0	96.4	95.0

[1] Total employment instead of civilian employment.
Sources: *National Accounts* and *Labour Force Statistics* (Paris, OECD), various years.

unemployment because labour supply decreased or rose only slightly (see table 1). In the two other successful countries (Norway and Sweden) wage moderation has produced positive results. This is also the case for the Netherlands where, however, unemployment rose at a fast rate because of a fairly swift increase in labour supply. In most other countries the lack of wage moderation has led to serious employment losses (particularly in Spain).

While a long-term relationship can thus be discerned in most cases between macro-economic labour costs and productivity, it is also important that labour costs should adjust quickly to short-term changes in macro-economic circumstances, such as changes in the terms of trade.

Greater flexibility in labour costs could be achieved by paying a larger share of wages in the form of bonuses, which can be reduced in times of economic difficulty. Labour costs should also adjust to trends in productivity at the sectoral level. In some manufacturing sectors, such as chemicals and oil, productivity is increasing swiftly while in other – more labour-intensive – sectors this is not the case. If wage negotiations are conducted at the national level or hinge on developments in certain key sectors, it is difficult to take these differences into account. This argues in favour of decentralising collective bargaining so that allowance can be made for differences in productivity.

Table 5. Percentage growth of production, labour costs, employment and productivity in manufacturing and services, 1973-81

Sector	Production	Real labour costs[1]	Employment	Productivity
Manufacturing				
United States	10.3	15.9	1.5	8.7
Japan	59.5	84.1	–3.3	65.3
Western Europe	8.5[2]	35.4[3]	–11.4[2]	22.5[2]
Services[4]				
United States	28.7	–2.8[5]	28.4	0.2
Japan	36.3	44.5[5]	19.5	14.1
Western Europe	29.1	18.6[5]	10.5	16.8

[1] Total labour costs per employed person divided by the production price deflator. [2] France, Federal Republic of Germany, Italy and United Kingdom. [3] France, Federal Republic of Germany and United Kingdom. [4] Commerce, transport, storage, communication, banks, insurance, real estate, communal, social and private services. [5] Total economy (except manufacturing).

Source: *Economic Outlook* (Paris, OECD), July 1984, p. 45.

Finally, productivity trends in manufacturing differ greatly from those in services. The wide discrepancy in employment performance between the United States and Europe can be traced to the private services sector. As shown in table 5, labour costs in American services even dropped between 1973 and 1981. As a result, employment there rose by almost 30 per cent, as against 10 per cent in Europe, even though the increase in production was roughly the same (30 per cent). The wage flexibility in the services sector of the United States can be explained by a number of inter-related factors: a rapidly increasing supply of unskilled labour (especially young people and women); a large demand for labour by small and medium-sized enterprises; restricted access to unemployment benefits; and a low degree of union organisation. In Europe employment increases have instead benefited skilled personnel in the public sector and the financial services.

Reduction of working time and flexibility of labour input

Generally, three major factors have contributed to the reduction of hours actually worked per year (see table 6): the shortening of the contractual working week (particularly in the 1960s), the increase in the number of paid holidays (especially in the 1970s), and the growing number of workers (especially women) holding a part-time job.

As early as the mid-1970s many quarters – and in particular the trade unions – proposed reductions in weekly working hours as a means of alleviating unemployment. It does not seem, however (see table 6), that since then working hours have been reduced to any appreciable extent, particularly considering that most of the reduction recorded has been due to an increase

Table 6. Average annual hours worked per person in employment (% change per year)

Country	1973-75	1975-79	1979-83
Belgium	–3.1[1]	–0.8[2]	+2.0[3]
Canada	...	–0.6	–0.9
Finland	–0.8	–0.5	–0.9
France	–1.4	–0.5	–1.8
Germany (Fed. Rep.)	–1.9	–0.5	–0.3
Italy	–1.6	–0.7	–0.4
Japan	...	+0.6	–0.2
Netherlands	–2.8	–1.4	+0.4
Norway	–0.6	–1.7	–0.5
Sweden	–1.3	–1.1	+0.0
United Kingdom	–1.1	–0.9	–1.4
United States	...	–0.1	–0.2

[1] 1973-76. [2] 1976-79. [3] 1979-81.
Source: *Employment Outlook* (Paris, OECD) for the years 1983, 1984 and 1985.

in part-time work. An exception is France where in 1981 the Government enacted legislation reducing the statutory working week. Even so – as we shall see later – this measure did not have much impact on employment.

It is in fact striking that at the start of the 1980s (between 1979 and 1982) Dutch and Belgian employees worked longer hours than during the previous period. In the case of the Netherlands, this can be explained by a fall in absenteeism[7] and a temporary decrease in part-time work. Since 1982, however, the number of hours actually worked has dropped again as a result of the central agreement concluded that year whereby the trade unions agreed to forgo a cost-of-living adjustment in exchange for a corresponding percentage reduction in working time. It is difficult to say just how far this agreement, which covered almost all sectors of the economy, has contributed to creating new employment. It may well have arrested the fast decrease in employment between 1980 and 1982, when between 80,000 and 100,000 jobs were lost each year. At all events, it has definitely led to a return to profitability for Dutch enterprises because employers reaped the full benefits of the improvement in productivity that occurred in most sectors in the early 1980s. Part of this rise was a direct consequence of the way in which working time was reduced. Many employers insisted on making labour input more flexible (through, for example, individually tailored shifts) so that the normal operating time of capital equipment could be increased. Another noteworthy feature of the central agreement was that it made little allowance for productivity differences between sectors. A more realistic condition for working time reduction would be that there should be no increase in costs per

unit of output. In this way employees too would benefit from productivity increases, which can of course vary greatly from one sector or enterprise to another.

It is not yet clear what effects the reduction of annual working time will have on employment. In the short term part of the reduction has surely led to greater productivity and possibly prevented dismissals. In the long term, as the economy recovers, it should lead to a better distribution of existing employment.

Different policies have been pursued in other countries with regard to the reduction of working time. In some, such as Denmark, Norway and Sweden, there was already a high percentage of part-time jobs in the 1970s; this became true for the Netherlands, as shown by table 2, in the 1980s.

In France the reduction in the statutory working week from 40 to 39 hours enacted in 1981, though applied by almost all enterprises in virtually every sector, led to no significant reduction in unemployment. For one thing, the fact that the purchasing power of wages remained intact meant that costs per unit of output increased. The Belgian Government has also tried to create employment by decree. In 1983 and 1984, in exchange for a working time reduction of 5 per cent per year and a wage concession of 3 per cent, enterprises were supposed to employ 3 per cent more workers. Failure to comply renders them liable to payment into a special unemployment fund of up to 2.5 per cent of the wage bill. In 1984 a serious dispute over the issue of working time broke out in the metal trades and some other sectors in the Federal Republic of Germany. It resulted in a modest victory for the workers, who had been demanding a 35-hour week, when the employers finally agreed to reduce the working week to 38.5 hours. This has probably arrested the trend towards job losses. Whether it will lead to new employment will depend mainly on the evolution of labour costs per unit of output.

The initial enthusiasm for working time reductions has begun to wane. Employers can expect to derive little economic advantage from further reductions in working time because their overcapacity of capital and labour has already been cut back. Besides, a new social problem has emerged within the enterprise that may impede future working time reductions. Management may agree to a reduction for lower- and middle-grade staff (covered by collective agreements), but not for higher-grade and managerial staff (who are only partially covered or not at all). A trend can already be discerned towards greater wage differentiation (both within and between enterprises), and this would be accentuated by increased differences in working time, leading in turn to still greater polarisation between management and employees.

While most employees still favour shorter working hours, many are beginning to lose patience with continued wage moderation; workers in various sectors increasingly prefer wage rises to a reduction of working time. In fact, the government may well be the only consistent champion of reduced working time (even though, as a rule, it shies from enforcing it by legislation).

Employers have introduced a new element into the negotiations on working time by pressing for increased labour flexibility. Employees, they say, should be more prepared to accept shift work or to work irregular hours. Some employers also seek greater discretion in hiring and dismissing employees in order to be able to adapt the volume of production to rapidly changing economic circumstances.

At first sight, the ability to exercise such flexibility in determining labour input would seem to be especially important for small and medium-sized enterprises where the volume of production can vary rapidly. And it is likely to be exercised above all in respect of employees who are directly engaged in the production of goods and services.

But this quantitative concept of labour flexibility (which, it should be noted, underpins the idea of working time reduction) fails to come to grips with the fundamental problem of employment and economic growth today, which is that many enterprises and government authorities have not yet found a creative response to the changing international circumstances.

The first reflex of an enterprise – indeed of any social organisation – is that of self-preservation. The upshot during the two recent recessions was a reduction in output and an increase in lay-offs. It may well be that the existence of restrictive labour legislation slowed the process of adjustment, with the result that some enterprises incurred an additional financial loss. But the solution to the fundamental problem of revitalising enterprises does not necessarily lie simply in reducing the excessive rigidity of labour legislation and labour supply.

The real flexibility will have to spring from constructive economic behaviour on the part of all employees and hence will require a large dose of training (especially within the enterprise) and a system that rewards innovation and economic efficiency and that encourages the workers to identify themselves with the objectives of the enterprise. This can only happen if the polarisation within the enterprise between management and workforce is diminished.

The reduction of working time remains important as a complementary policy. If it is to be successful, however, several conditions must be met: total labour and capital costs per unit of output should not increase; negotiations to determine the form and pace of working time reductions should be conducted at the enterprise or sectoral level; and governments should endeavour to provide incentives and set an example of working time reductions in the public sector.

4. Macro-economic policy

In the current economic circumstances it is difficult for many OECD countries to carry out – on their own – a traditional Keynesian policy of government budget deficit financing. Given the high real interest rate, such a policy would lead to a further increase of interest payments which in many

OECD countries already account for more than 10 per cent of the government budget. As table 7 shows, generally government deficits rose rapidly between 1979 and 1982, but have begun to fall or level off since then. Small countries outside the EEC, such as Austria, Norway and Switzerland, have been more successful in balancing government finances than the EEC member countries. In many small EEC countries the share of total government outlays in national income has risen more rapidly than in the other small Western European countries.

In 1982 that share ranged from 55 to 65 per cent of GDP in Belgium, Denmark and the Netherlands but was less than 50 per cent in Austria and Norway. The extremes are found in Switzerland and Sweden, with 30 per cent and over 65 per cent respectively.

It is interesting that two small countries, the Netherlands and Norway, which both export energy, have had such different economic fortunes. Norway has one of the lowest unemployment rates and the government budget shows a surplus. One of the main reasons for the difference is that, since 1973, social security and other public expenditures, as a percentage of GDP, have risen much more slowly in Norway than in the Netherlands. In addition, labour costs in Norway have increased more slowly than the growth of GDP. Finally, the Norwegian Government has spent relatively more on protectionist measures. Employment in many Norwegian towns and regions is dependent on one or several large companies. Not only are these supported by special subsidies but they are also sometimes protected by tariff walls. This, incidentally, points to a fundamental difference between the smaller EEC and non-EEC countries. Small European countries outside the Community, while enjoying relatively easy access to the Common Market, have greater freedom for conducting their economic policies. They have greater flexibility in adapting their exchange rates and can impose import duties and subsidise enterprises without being called to order by a supra-national institution. In the long run it is doubtful whether such countries as Norway will be able to pursue costly employment policies of this sort in view of the recent sharp fall in oil prices.

For most countries the reduction of unemployment depends to a large extent on developments abroad. The currently strong export performance of Europe, Japan and most NICs is largely due to the expansionary policy of the United States where government expenditures rose faster than revenues until the mid-1980s. At the beginning of the 1980s France pursued a similar policy but had to abandon it because other European countries did not follow suit. In the current circumstances the EEC and other Western European countries could certainly adopt a co-ordinated expansionary policy to advantage. Such a policy would have a less inflationary effect than in the past since commodity prices are falling and labour costs are better in hand than previously.

A co-ordinated expansionary policy of countries with a low government budget deficit, such as the Federal Republic of Germany, the United Kingdom, Norway, Austria and Switzerland, would create many more jobs in

Table 7. Financial deficit (–) or surplus (+) on the government budget (in % of gross domestic product)

Country	1979	1982	1985[1]
Canada	–1.8	–5.0	–6.0
United States	+0.6	–3.8	–3.7
Japan	–4.8	–3.6	–1.4
France	–0.7	–2.7	–3.2
Germany (Fed. Rep.)	–2.7	–3.4	–1.5
Italy	–9.5	–12.6	–13.1
United Kingdom	–3.2	–2.3	–3.6
Australia	–1.5	–0.4	–2.9
Austria	–2.4	–3.1	–1.7
Belgium	–7.0	–12.6	–10.3
Denmark	–1.9	–9.3	–3.0
Netherlands	–4.0	–7.0	–5.6
Norway	+1.8	+5.3	+2.5
Spain	–1.7	–6.3	–4.5
Sweden	–3.0	–4.8	–3.0

[1] Estimate.
Source: *Economic Outlook* (Paris, OECD), June 1985.

Europe because Europe as a whole is a fairly closed economy. Outside Europe, Japan is also in a position to pursue a more expansionary policy. A world-wide expansionary policy hardly seems feasible until real interest rates have dropped significantly.

There are two other macro-economic policy options for individual governments, even if their budget deficit is big. First of all, it is possible to alter the composition of public expenditure. The bulk of public expenditure consists of consumer expenditures (salaries of civil servants, social expenditure and current expenditure). Since the mid-1970s public *investments* have dropped in most countries. This trend could well explain part of the lower economic growth since then.

Secondly, a different distribution between public and private sector activities might lead to a higher rate of growth and hence to increased employment. An example would be the production of some government services by the private sector if it can supply them more efficiently without harmful effects for society as a whole. Governments also can lower taxes so that a larger part of national income can be spent on goods and services produced by the market sector.

A final problem that deserves a few words is the lack of private investments. A recent EEC study[8] has shown that unemployment in Europe cannot be solved in the short term because there is a shortage of productive

capital goods. As long as this shortage persists there is simply no level of real wages at which the economy can attain full employment.

Between 1980 and 1984, while private investments in the United States increased by more than 20 per cent, in Europe they even decreased slightly. Two factors have accounted for this: the high real interest rates and the low profitability of enterprises. Profitability has since improved as a result of wage moderation, labour "shake-out" and better export performance (especially on the American market). But real interest rates (even though they are declining at the moment) are still high by past standards, and if the European economy is not stimulated to fill the vacuum left by the contracting American import market, and European enterprises lack the self-confidence needed to invest, then bad times are ahead for employment in Europe.

III. Conclusions

Nevertheless, it *is* possible to attain full employment in the OECD countries during the 1990s, that is to offer a job to everyone who is able and wishes to work. One favourable trend is that fewer young people will be entering the labour market as a result of demographic growth. However, the main question is whether the necessary changes will take place within enterprises. Will they be able to launch new products and technologies on the market; will they have sufficient self-confidence to invest in the future; and will the workforce show sufficient flexibility in their wage demands to allow employment creation? Among the conditions required at the macro-economic level are an international expansionary policy, a reduction of real interest rates and a certain stability in exchange rates and inflation.

Despite the rapid increase of unemployment, a number of positive developments have occurred over the past ten years. People have become more aware that economic growth and employment are not manna from heaven but are dependent on constructive economic behaviour both within enterprises and by the government, on wage moderation, higher profitability, labour flexibility and a new style of government intervention. Trade unions have shown their solidarity with the unemployed by calling for further reductions in working time. Governments have been trying to put their house in order, in particular by reducing their budget deficits and by balancing the social security accounts, and if they are successful real interest rates are bound to come down.

Nevertheless, while my contention here is that full employment is attainable, one cannot dodge the question: will it actually be attained? I believe it improbable, at least for some time. While people were prepared to accept change under the shock caused by the slump at the beginning of the 1980s, that willingness is beginning to fade. The investment boom that Europe so badly needs has not really taken place yet. Some trade unions are beginning to tire of unending wage moderation. Governments are claiming that, in spite of the difficult times, they haven't done such a bad job after all.

The growth of unemployment, they point out, has slowed in most countries; the social security system has worked and people have not resorted to street demonstrations. Perhaps, after all, things are not as bad as they seem. Maybe we will simply have to reckon permanently with a 10 per cent rate of "natural" unemployment. In other words, a certain feeling of resignation, a reluctance to take further risks or to make further sacrifices, has come over the social partners and the government.

Is it possible to change this attitude? Only if several conditions are met. First, it must be brought home to all concerned that unemployment produces very serious consequences. Some age groups – especially young people – are for a long time (in some cases for life) denied the opportunity to earn their own living. Many women would like to work but are unable to find a job or have already given up looking for one. The ratio between the working population (who contribute to social security) and the non-working population (who benefit from it) continues to decrease, a trend that could lead in the long run to great social tension. And a permanently high level of unemployment would diminish long-term growth prospects.

It must also be noted that the public in general, and the social partners and governments in particular, either are not sufficiently aware of what they can do to promote employment or choose not to act on their knowledge. Most of the discussions about employment policy remain somewhat abstract, referring to "technology policy", "wage moderation", "the return to profitability", "economic growth", "reduction of the government deficit", and so on. All these macro-economic policies, as we have seen here, are necessary, but are not enough. What is needed in addition – and this is the second condition – is a clear commitment by governments to create more employment at the local level and a clear commitment by labour and management to maximise employment at the enterprise level.

The commitment of the social partners is all the more important as collective bargaining becomes more decentralised and as governments entrust the private sector with increasing responsibilities. In this connection there are many unanswered questions. Almost everybody seems to agree (and the employers first of all) that more economic growth is necessary and may eventually lead to fuller employment. However, we have seen that even with economic growth rates of 3 per cent per year unemployment in Europe will still be very high. What is needed is an employment-intensive growth pattern. An important condition is continued wage moderation that makes the cost of labour lower than that of capital. Also required is greater flexibility on the part of employers in accepting working time reductions and other employment-creating measures.

Since collective bargaining can have such decisive effects on employment, the government should be present in one way or another during the negotiations. This could be done through tripartite consultation at the level or levels at which real bargaining decisions are taken. Inside detailed knowledge would enable the government to adjust its policies at once to

support the positive employment effects of new collective agreements or to counteract possible negative tendencies, and to alert public opinion, the legislature and the political parties to whatever undesirable repercussions it foresaw. Such "awareness" would also have the beneficial result of making the social partners and the government take a keener look at the concrete implications of their employment policies and act accordingly.

Notes

[1] ILO: *World Labour Report 1* (Geneva, 1984), Ch. 2.

[2] R. Hayes and W. J. Abernathy: "Managing our way to economic decline", in *Harvard Business Review* (Boston), July-Aug. 1980, pp. 67-77; and K. Ohmae: "Foresighted management decision making: See the options before planning strategy", in *Management Review* (New York), May 1982, pp. 46-55.

[3] In this article we shall not examine the shortcomings of the capital and product markets. However, it is clear that malfunctioning capital and foreign exchange markets have led to great international instability, and adversely affected productive investments and employment.

[4] See, for example, J. Artus: "The disequilibrium real wage hypothesis: An empirical evaluation", in *IMF Staff Papers* (Washington, DC), June 1984.

[5] *Economic Outlook* (Paris, OECD), Dec. 1984, p. 55.

[6] L. Lipschitz and S. Schadler: "Relative prices, real wages and macro-economic policies", in *IMF Staff Papers* (Washington, DC), June 1984.

[7] Ministerie van Sociale Zaken en Werkgelegenheid: *Rapportage arbeidsmarkt 1984* (The Hague, 1984).

[8] O. Blanchard et al.: *Employment and growth in Europe: A two-handed approach*, Report of the CEPS Macroeconomic Policy Group (Brussels, Commission of the European Communities, Directorate-General for Economic and Financial Affairs), Economic paper No. 36, June 1985.