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Ajit Singh: Global Unemployment, Longrun Economic Growth and Labour Market Rigidities: A Commentary

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This short paper aims to contribute to the debate on the causes and remedies for high rates of unemployment and under-employment, which presently afflict large parts of both the North (industrial countries) and the South (developing countries). The starting point for the paper is a recent interesting and thoughtful examination of these questions by Isabelle Grunberg (1996). As against the emphasis on labour market flexibility and the concept of NAIRU, which dominate the mainstream theoretical discussions, as well as policy prescriptions for the global unemployment problem, Grunberg provides an unorthodox analysis. She regards failure on the demand side to be the main cause of unemployment and considers a range of structural factors connected with the increasing integration of the world economy (in terms of trade, finance and investment) which inhibit demand growth.

The present author broadly agrees with Grunberg's general approach. This paper supplements her analysis by examining further some of the main themes presented in her contribution. Specifically, the paper will comment on the following issues:

(a)The differences in the nature of the employment challenge which confronts industrial and developing countries.
(b)The question of "jobless growth" and the effects of technical change on employment and unemployment.
(c)The impact of globalisation and liberalisation on the rate of growth of demand in the world economy.

The paper provides inter alia an analysis of the chief constraints on the demand as well as the supply side which may affect the long-term growth of output and employment in industrial and developing countries.

The employment challenge: North and South

The main stylised facts about unemployment, under-employment and related phenomena in developed and developing economies may be summarised as follows.

1. There has been a large trend increase in unemployment rates in most industrial countries since 1973. In 1970 there were 8 million people unemployed in OECD countries; in 1994 the unemployed numbered 35 million, about 10% of the labour force. The rise in unemployment has been particularly marked in the case of West European countries. West Germany provides a striking example of this. It is a remarkable fact that between 1964 and 1973 the average rate of unemployment in West Germany was less than 1% of the labour force. The corresponding unemployment rate for the last ten years (i.e. 1986-1995) has been over 8% of the labour force.

2. In addition to these high recorded rates of unemployment, a considerable proportion of the workforce in advanced economies is presently obliged to work part-time, or is too discouraged by the lack of employment opportunities to look for work at all. If these involuntary part time and discouraged workers are included, it is estimated that this would raise the OECD unemployment rate by half as much (OECD (1994)).

3. Unemployment rates have been appreciably lower in the U.S. than in Western Europe. Between 1964 and 1973, the U.S. unemployment rate averaged 4.5%. During the last ten years (1986 to 1995), it has been higher (6.4%), but not as high as in Western Europe.

Despite this superior U.S. performance relative to Western Europe in relation to open unemployment, the U.S. nevertheless has a large army of underemployed people. Thurow (1996, p.56) observes:

> "There are 8.1 million American workers in temporary jobs, 2 million who work 'on call' and 8.3 million self-employed 'independent contractors' (many of whom are down-sized professionals who have very few clients but call themselves self-employed consultants because they are too proud to admit that they are unemployed). Most of these more than 18 million people are looking for more work and better jobs. Together these contingent workers account for 14 percent of the workforce."

Moreover, the average real wage for non-supervisory workers in the U.S. declined at a rate of 0.3% per annum in the 1970s, 1.0% per annum in the 1980s and 0.3% per annum between 1990 to 1994. In contrast in the 1960s, the corresponding average real wage rose at a rate of 1.4% per annum (Pollin & Zahrt, 1996).

Further, in addition to the huge underemployment and stationary or declining real wages, another unfavourable aspect of the labour market experience in the U.S. in the recent period has been the growing inequality of wages. Wage dispersion had decreased in the U.S. during the 1950s and 1960s but wages have become much more unequal during the last two decades. Wage dispersion has also greatly increased in the UK over the last fifteen years. However in continental Western Europe there has been very little change in the recent period.

4. The unemployment challenge facing developing countries today is somewhat different from that which confronts the advanced countries. Since in developing countries, there is hardly any public provision or welfare payments for those who become unemployed, most people in these countries are obliged to seek work, howsoever unremunerative it may be. Consequently, the recorded rates of unemployment in developing countries tend to be generally low. This may be illustrated by the case of Mexico. Mexico, although still a developing country, joined the OECD - the rich countries' club - in the wake of the euphoria following its entry into NAFTA. At a time of large scale unemployment in industrial countries, it turns out that the country with one of the lowest unemployment rates in the OECD is Mexico - its recorded unemployment rate was 2.9 percent in 1992, 3.5 percent in 1993 and 3.7 per cent in 1994 compared with double digit rates in several European economies.

The employment problem in the South thus manifests itself primarily in the forms of underemployment and low productivity/low remuneration work, often called 'disguised unemployment', following Joan Robinson. More significantly, however, the labour force in the two developing continents with the most acute employment difficulties, namely Latin America and Africa, is presently increasing at a rate of approximately 3% per annum. The employment challenge before these countries is therefore not only to reduce the existing large disguised unemployment, but also to provide adequately remunerative jobs for the rapidly growing new entrants to the labour force. {PRIVATE }

5. Since the 1980's, there has also been differences in the experiences of Asian countries on the one hand, and Latin American and African countries on the other hand. Between 1980 and 1992 paid employment in Latin American countries, for example, fell at a rate of 0.1% per annum (ILO, 1995). This reversed the trend of the previous three decades, which had witnessed a significant expansion of modern sector employment. Again, the case of Mexico provides a good illustration. Between 1990 and 1992, the economically active population (EAP) in that country is estimated to have increased by 1.2 million persons each year. However, during this period only 339,974 jobs, i.e. 28 per cent of the EAP, was absorbed by the formal labour market. Yet it is important to observe that in the two years before the debt crisis, 1980 and 1981, the Mexican economy was expanding at an average rate of about seven per cent per

annum and creating almost three quarters of a million new jobs each year in the formal sector.[1]

In sharp contrast to these serious employment difficulties of the African and Latin American economies, there has been a fast expansion of formal sector employment in East and South East Asian countries. In a number of these countries (e.g. Korea, Taiwan, Malaysia), manufacturing employment increased during the 1980s at a rate of almost 6% per annum. These previous labour-surplus economies have found themselves with significant labour shortages, leading to considerable immigration of labour force from neighbouring lower income countries.

III. GROWTH OF OUTPUT, EMPLOYMENT AND REAL DEMAND

How can these unfavourable developments in the labour markets in the North and in large parts of the South be explained?

The key variable here is the growth of GDP. The outstanding record of near full employment in industrial countries for nearly a quarter of a century up to 1973 arose from the very fast growth of these economies during that period. In this aptly named golden age of capitalist development, GDP in industrial countries expanded at a historically unprecedented rate of nearly 5% per annum.[2] This rate was almost twice as high as any of the trend rates experienced by these economies during their previous phases of development over the last 150 years.[3] However, since 1973 the GDP growth rate in OECD economies has fallen to approximately half of what it was during the 1950s and 60s, resulting in the observed high rates of unemployment or under-employment. Similarly, the reason for the superior employment performance of East Asian countries relative to those in Latin America and Sub-Saharan Africa lies in the much faster rate of growth of the former group of economies since 1980. The East Asian countries have expanded at an average rate of nearly 8% per annum compared with average growth rates of 2 - 3% in the Latin American and African countries during this recent period.[4] [see Table 1].

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[1]See Singh (1988) and Peters (1994).

[2]See further Glyn et al (1990); Kindelberger (1994); Singh (1995); Crafts and Toniolo (1996).

[3] Maddison (1982)

[4]For a comparative analysis of economic development of developing countries in different regions see further Singh (1993, 1994a, 1995a); World Bank (1991, 1993), among others.

It is sometimes argued that economic growth no longer results in the expansion of employment. However there is little empirical support for this proposition at the macro-economic level in either industrial or developing countries. The data for industrial countries in fact shows that the growth rate required before the economy starts creating net new jobs has been less in the period 1974 to 1995 than during 1960 to 1973. This reflects the lower average productivity growth of the later period.[5] Further, cross-section econometric evidence for advanced industrial countries suggests, if anything, an increase over time in the employment elasticity of output growth rather than a decrease, as the hypothesis of jobless growth would imply.[6] The reason why unemployment or under-employment has increased so steeply in all these countries is not that 'growth' does not create as many jobs as before, but that there has been much slower growth than before.

Thus, a comparison of the record of growth of output, employment and earnings in the golden age with that observed for these variables in the subsequent period for the advanced industrial countries strongly suggests that with sufficiently fast economic growth, countries can achieve both full employment and rising real wages. This is as true of the U.S. as of the West European countries. The available cross-section evidence for developing countries for the period since 1980 also unambiguously points in the same direction. As chart 1 shows, the faster the economic growth in a developing region during the 1980s, the faster was the growth of manufacturing employment. Moreover, with fast economic growth, the East and South East Asian countries not only achieved fast growth of formal sector employment during the 1980s, the real wages in these countries rose at a rate of 5% per annum. The Latin American and African countries not only had a decline in modern sector employment, but also suffered reduced and stagnant real wages (this point is discussed further below).

This brings us to the central question: can the growth rates of advanced industrial countries be raised to the levels required to attain full employment with rising real wages as was, for example, the case in the golden age? Similarly, one can ask: can developing countries in Latin America and Sub-Saharan Africa achieve the growth rates which would be necessary to provide jobs to their fast-growing labour forces as well as reduce the large backlog of existing open and disguised unemployment? The essential argument of this paper is that there is in principle an affirmative answer to each of these questions. This argument will be elaborated in the next two sections by examining separately for advanced and developing

[5]In the U.S., the annual growth rate required for the economy to start creating net additional jobs during 1960-1973 was 2.3%; between 1974-1995, the corresponding rate has only been 0.7%. See further, ILO (1996).

[6]Boltho and Glyn (1995) report that employment elasticity of GDP growth for advanced industrial countries rose from 0.49% during 1975-82 to 0.63% during 1982-93.

countries the various possible constraints on the demand as well as the supply side, which may be inimical to faster long-term economic growth .

The Constraints on Faster Economic Growth: Advanced Economies

The Record of the Golden Age: The Social Market Economy

The first important point to note is that although the growth performance of advanced industrial countries in the period since 1973 is considerably inferior to that of the golden age, it is very much in line with the historical record of these economies. That does not make the post-1973 record legitimate or acceptable in view of the high degree of unemployment which presently exists. Nevertheless it does suggest that it is the high growth rates of the golden age which are the exception, rather than the rates of the recent period.

Why were the growth rates so high in the golden age? Does that period of high employment and rapidly rising living standards have any implications for the contemporary situation in industrial countries? As these questions have been examined at length elsewhere(see Singh, 1995) , it will suffice to summarise here the main points of the analysis.

(1) The outstanding performance of industrial countries in the period 1950-73 was not an accident, or simply a favourable outcome of a chance combination of circumstances. It derived from an economic model which was rather different from that which prevailed in the inter-war period or since the 1980s.

(2) In descriptive macro-economic terms, the golden age was characterised by exceptionally high rates of growth of real demand and investment. Aggregate real demand in industrial countries increased at a rate of nearly 5% per annum, compared for example with the post-1973 growth of this variable at about half that rate. Similarly, during the golden age, capital stock and capital labour ratio in these countries recorded an unprecedented growth. These in turn generated high growth rates of productivity and output, justifying past investment and encouraging its continuation in a positive feedback loop.

(3) At a deeper economic level, this high growth equilibrium of the golden age was sustained by new institutional arrangements - indeed a new economic system. This system arose in Western European countries in the post-war period in response (a) to the mass unemployment of the Great Depression and equally importantly (b) the confrontation between alternative socio-economic orders (i.e. the communist party-led command economy of the former Soviet Union and the liberal capitalistic economic system of the

U.S.). This new social market economy was based on cooperative relationships between employees, employers and the government at the national level and between nation states at the international level. Within nations, it involved a social consensus, a national compromise over the distribution of income and the fruits of economic progress. The central elements of this compromise were a commitment to full employment and a welfare state on the part of the employers and the government, and a corresponding commitment to wage moderation on the side of the employees. At the international level, following the war, the world trade and financial system worked in a stable and predictable way under the hegemony of the U.S., the dominant economic power for most of this period.

An analysis of the reasons for the fall of the golden age by the mid-1970s and the emergence of a rather different economic system in the 1980s is provided by Glyn et al. (1990). It suffices here to note that the new post-1980 economic order, which has progressed most in the U.S. and the U.K., emphasises the supremacy of market forces; it eschews government regulation of labour, product or capital markets, as well as non-market cooperative relationships between governments, employees and employers such as 'incomes policies'. Similarly, at the international level, instead of cooperation between nation states, economic relationships are increasingly dominated by market forces unleashed by liberalisation and globalisation. The extent, if any, to which this new economic order constrains the current and potential growth of output in industrial countries will be examined later.

Technology and Unemployment

Turning to supply side constraints on GDP growth in industrial countries, the question of the nature and pace of technological change is clearly salient. There are two inter-related issues here :

(a) Is the pace of technical change now faster than before, and thus directly responsible for the observed increase in unemployment?

(b) How does technical change affect the potential growth of output?

The most important technical change of the post-war period is undoubtedly the information and communications technology revolution (ICT). Many students of technology regard ICT to be on par with the previous major technical revolutions of the last two centuries such as the steam engine and electricity. However, ICT differs from the latter two in one important respect. In addition to being an input and facilitating production in a wide range of industries, the ICT also has direct outputs, in the form of new products - e.g. the Internet, CD-ROM, micro-processors, etc. Another important difference between ICT and electricity and steam power is

that the pace of technical change in the former has been much faster with the result that its price has fallen far more quickly relative to the other two. Whereas it took almost fifty years for the price of electricity or of steam power to be halved after the beginning of their commercial use, the price of ICT has fallen to a fiftieth of what it was twenty-five years ago. An ordinary PC today costing about $2,000 has as much computing power as the most advanced computer in 1975 costing at the time over $10 million (Woodall, 1996).

Nevertheless, despite its potential, the ICT has not resulted in a faster average growth of productivity in industrial economies. The rate of productivity growth in the OECD countries has been considerably lower in the period 1974-1995 than during the 1950s and 60s. This outstanding fact has two major implications. First of all, it suggests that the mass unemployment of the recent period cannot be blamed on technology. The observed fall in productivity growth suggests a lower average rate of technical change rather than an increase. A part of the paradox may well be due to the incorrect measurement of output and productivity in the recent period in the national accounting statistics as some economists, probably rightly, suggest. However, an important part of the answer to this paradox of a huge new technical revolution and yet no increase in average productivity clearly lies in the fact that the potential of this technology is not yet being fully realised. If the rate of growth of real aggregate demand was higher, this technology would have more widespread use in most branches of industry and services, reducing their prices and, as in the case of previous technical revolutions, leading to a virtuous circle of increased demand, increased output and increased growth of productivity. In short, the unutilised potential of the ICT revolution suggests that the rate of growth of GDP in industrial countries is certainly not constrained by supply. If there are constraints, it is to the factors on the demand side that we must turn.

The Mainstream View: NAIRU and Flexible Labour Markets

However, contrary to the above analysis, many mainstream economists normally insist that the chief constraints on employment and GDP growth in advanced economies lie on the supply rather than the demand side. The most important argument made in this respect is that labour market inflexibilities constrain output and employment growth well before full employment is reached. The formal analysis is conducted in terms of the concept of NAIRU, the Non-Accelerating Inflation Rate of Unemployment. There are, however, many well-known difficulties with the NAIRU analysis, both at the empirical and analytical levels. I simply note here that the labour market theories of unemployment and inflation cannot explain the long-term pattern in these variables in leading industrial countries. To illustrate, the labour markets were much more flexible in the 1930s compared with the 1960s, and yet the 1930s had mass unemployment (and low inflation) and the

1960s had full employment and also low inflation. Contrary to the NAIRU analysis, real product wages rose more in the 1960s than they did in the 1930s and yet there was fuller employment in the later period than in the earlier one.

The exponents of NAIRU set great store by the recent employment experiences of the U.S. and Western Europe. It is argued that the main reason why the U.S. today has lower unemployment than Western Europe is because of its relatively much more flexible labour markets. This argument, however, fails to take into account the fact that the U.S. had more flexible labour markets than Western Europe in the 1950s and 1960s as well. In the earlier period, European countries enjoyed a far superior employment record to that of the U.S.

As suggested before, the missing variable in the above analysis is the rate of growth of real demand and output. The main reason for the superior employment record of the European countries in the golden age compared with either the interwar period or the 1980s, was the much faster growth of real demand and output in that period.

The emphasis above, and indeed, throughout this paper, on real demand is deliberate. It points to the fact that the "demand problem" today cannot simply be solved by normal expansionary monetary and fiscal policy. The post World War II economic history of industrial countries suggests that unless there is a restraining institutional mechanism with respect to wages and incomes, monetary and fiscal expansion will simply lead to an increase in money demand rather than real demand as the economy moves towards fuller employment on a sustained basis. This suggests that a main constraint on the growth of real demand is an institutional one: the absence of income and wage coordination policies which were an important part of the golden age consensus.

It might parenthetically be noted that although there is some common ground between the NAIRU analysis and that outlined above, there are also profound differences both with respect to the overall analytical perspective and policy conclusions. Instead of recommending greater labour market flexibility in order to increase employment (through measures such as reducing trade union rights or cutting welfare state benefits), the present paper emphasises the role of the growth of real demand through non-market, co-operative and collective institutional mechanisms.

Liberalisation, Globalisation and the Demand Constraint

In addition to the absence of the domestic institutional mechanisms which can constrain real demand growth as outlined above, there are also today other important constraints on demand growth at the international

level. The latter emanate from the liberalisation of national economies, and the globalisation of markets, which has occurred in the last 10 to 15 years. A very important part of this process in the present context is the free movement of capital across the exchanges for most industrial countries and, increasingly, for many developing economies.

In contemplating the shape of a liberal international economy in the post-war period, Keynes was most concerned with the problem of how the balance of payments disequilibria between nations may be resolved at a rate of growth of world demand which was adequate for full employment. He noted that:

"the problem of maintaining equilibrium in the balance of payments between countries has never been solved... the failure to solve this problem has been a major cause of impoverishment and social discontent and even wars and revolutions ...to suppose that there exists some smoothly functioning automatic mechanism of adjustment which preserves equilibrium if only we trust matters of laissez faire is a doctrinaire delusion which disregards the lessons of historical experience without having behind it the support of sound theory." (Moggridge, Vol. 25, pp.21-22)

The Bretton Woods institutions were designed to cope with this problem. During the golden age, notwithstanding their many weaknesses, these institutions, with active help from favourable US government policies (eg. the Marshall Plan), were able to ensure that balance of payments disequilibria were indeed resolved at high rates of growth. However, following the demise of the Bretton Woods regime, the payments equilibria between countries under financial liberalisation has only been maintained at low rates of growth of real world demand. In addition to this important factor, there are also other ways in which the current liberalised and globalised international economic regime can, and has, constrained aggregate demand.

Firstly, individual industrial countries have been obliged by financial markets to follow generally restrictive economic policies, because expansionary policies are punished by the markets and become unviable. In the formation of average market opinion, far more weight is given to the perceived dangers of inflation rather than to the need to obtain full utilisation of resources. Eatwell (1995) outlines a process by which such market psychology becomes predominant.

Secondly, unfettered capital movements provide enormous scope for destabilising speculation which in turn leads to high volatility of financial variables such as exchange rates and the nominal rate of interest. These in turn can affect real variables such as investment both directly and indirectly. Investment is discouraged directly by the rising cost of capital which is in

part caused by volatility in financial variables. In addition, the greater overall uncertainty which now increasingly characterises the economic environment as well as the bigger fluctuations in almost all the components of final demand also have a negative effect on the corporate inducement to invest. The net result of all these factors is the observed low rates of growth of aggregate demand, output and employment.

Labor Markets and Growth in Developing Countries

Developing country labour markets

Turning to developing countries, the first important point to note is that it would be difficult to explain the serious employment situation and the reductions in real wages in Latin American and African countries during the last 15 years in terms of the rigidities of their labour markets. In static terms, there may well be many rigidities and imperfections in these markets, but it is important to appreciate that the experience of this period indicates that over time, these markets have responded well and quickly to economic changes. Real wages, for example, fell by as much as fifty per cent in countries like Mexico during the economic downturn of the 1980s and rose somewhat in the subsequent upturn. In other words, labour markets have been flexible in a dynamic sense.

Moreover, aggregate cross-section data on real earnings and employment for the developing regions do not provide any support for the labour market theories of employment. In Latin America and Sub-Saharan Africa there were enormous falls in real earnings in the 1980s: of the order of more than ten per cent per annum in Sub-Saharan Africa and over three per cent per annum in Latin America and the Caribbean (see Table 2). As seen earlier, these large reductions in real earnings did not, however, lead to an improvement in the employment situation, but rather to a deterioration. In contrast, in the East Asian countries, there was a phenomenal increase in real wages - at a rate of over 5 per cent per annum. Yet this growth of earnings was accompanied, as noted before, by a large increase in modern sector employment. In fact, in many of the East Asian countries, there were significant labour shortages which were met by immigration from abroad.

The essential reason why both real wages and employment expanded in East Asia, whilst both fell in Latin America and Sub-Saharan Africa, lies in the differences in the real rates of growth of aggregate demand and output for countries on the three continents. The Latin American and African economies became severely balance-of-payments constrained during the 1980s as a consequence of the debt crisis and therefore could maintain only low rates of growth of real aggregate demand and production. The East Asian economies escaped the debt crisis and were thereby able to maintain

their previous high rates of growth of real demand and GDP (Singh, 1993,1994a).

Constraints on the South's economic growth

The above analysis leads us finally to the question whether developing countries in Latin America and Sub-Saharan Africa can achieve in future the growth rates required to provide jobs to the new entrants to the labour force as well as reduce the current backlog of unemployment and under-employment. Econometric studies suggest that in order to be able to employ a labour force which is growing at a rate of 3 per cent per annum, at the existing wage rates, a developing economy would have to grow at about 6 per cent per annum.

At one level, the answer to the question as to whether Latin American countries can achieve such growth rates is straightforward. They have recorded such growth rates in the not too distant past - between 1950 and 1980. There is no reason at all why, at least on the supply side, they should not be able to achieve similar or higher growth rates in years to come.

However, the situation is more complex. In the recent period, the Latin American countries have been following the Washington Consensus and have been enthusiastically liberalising their economies. They have unilaterally greatly reduced their tariffs and liberalised their financial regimes in order to attract foreign capital, which they duly did. Spurred by the euphoria about the Washington Consensus and the emerging markets, as well as by other factors, Latin American countries received enormous inflows of funds between 1990 and 1994, largely from U.S. institutional investors. These funds relaxed the foreign exchange constraint and enabled many Latin American countries to resume the process of real economic growth after the "lost decade" of the 1980s.

As Rodrik (1994) and Krugman (1995) point out, however, these portfolio flows to Latin America were not responding to fundamentals but represented a misplaced euphoria and a 'herd' instinct. The market was not rewarding virtue, frugality and restraint, but in many countries subsidising consumption at the expense of investment. Despite evidence that countries like Mexico were running huge current account deficits and using inflows largely for current consumption, such flows continued. The Mexican trade balance shifted from a small surplus in 1988 to a deficit of US $20 billion in 1993; the current account deficit was about 6% of GDP in 1993 and 9% in 1994. Financial and trade liberalisation policies led to a fall in private savings from roughly 15% to 5% of GDP despite high interest rates (Taylor and Piper, 1996). Notwithstanding huge capital inflows in the 1990s, Mexico's rate of economic growth during 1990-94 was only 2.5% p.a. - barely equal to the rate of population growth.

The speculative bubble burst in December 1994, when portfolio flows to Mexico suddenly stopped. Share prices fell sharply, not only in Mexico but also, through the "contagion effect", in most emerging markets. The impact on the real economy was devastating – real GDP fell by 7% in Mexico and by 5% in Argentina. Thus, even when financial markets have been expansionary, their bandwagon and herd characteristics generate considerable instability for the real economy.

Consequently, under the Washington consensus policies, the real economy of Latin American countries expanded at a very low rate – 3 to 3.5 percent per annum – in the 1990s. Singh (1996) has suggested that the basic difficulty lies in the fact that the Latin American countries opened up too much and too suddenly to the international economy, both in the financial and product markets, so as to be able to sustain a desired current account position at the socially necessary growth rate of 6% or so per annum. Instead of a doctrinaire pursuit of more or less free trade and virtually unimpeded capital flows, Singh proposes a set of pragmatic policies to assist the Latin American real economy. These policies involve, inter alia, a considerable regulation of external capital flows, but also a relatively modest degree of control over imports. Unfettered capital markets and unrestricted trade liberalisation would not appear to represent the optimal degree of openness for most Latin American economies at the present juncture.

Finally, unlike the Latin American economies, in the case of the African countries, supply side constraints on economic growth are more plausible. Although they are constrained by their balance of payment position (in turn attributable in considerable measure to low commodity prices), there are also in these countries serious supply side problems, not least those of governance and infrastructure.

VI. Conclusion

The essential argument of this paper has been that unemployment in the North and in large parts of the South is due to a trend reduction in the rate of growth of output in these economies during the last two decades or so. The solution, therefore, must entail a restoration of economic growth in the North to its golden age levels, and growth in the Latin American countries to their long-term trend rates of 1950-1980. This should go a long way towards fully addressing the employment deficits in these economies on a sustained basis. Moreover, it is argued here that such growth is perfectly feasible on the supply side. Not only are there unutilized human resources, but also, significantly, there is a huge backlog of technology in the form of the information and communications technology revolution, whose full potentials are far from being realised.

The central constraint on fast economic growth in the world economy is therefore not failure on the supply side, but on the demand side. To that extent, it is a self-inflicted wound, arising from the inefficiencies or the absence of the appropriate coordinating economic mechanisms. The paper suggests that in order to achieve the required rates of growth of real demand (to attain the desired output and employment objectives) deep

institutional changes will be necessary, both at the national and international levels in the world community of nations.

These institutional changes are analysed and examined at length in Singh (1995).To summarize, what is required at the international level is for governments to agree to (a) give chief priority to the employment problem; (b) symmetrical adjustment in deficit and surplus countries; (c) macro-economic policy coordination, particulary between industrial countries via a multilateral mechanism. Originally this was the intended role of the IMF, instead of which it has mostly been used to discipline the South.

Parallel to these *external* coordinating mechanisms, and perhaps even more importantly, it is necessary to have appropriate mechanisms at the national level, to coordinate wage levels in leading industrial countries – rather than the current policies which center around labour market flexibility and deregulation. Indeed, pay coordinating policies only work if they are not seen simply as mechanisms to reduce workers' real wages to correct short-term macro-economic diseqilibria, but are regarded as long run measures leading to a fair and more progressive income distribution over time.

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Table 1

Trends in GDP growth: regions and the world
1965-1994
(Average annual percentage growth)

	1965-1980	1980-1990	1990-1994
Low-income economies (excluding China and India)	4.8	2.9	1.4
Middle-income economies	6.3	2.5	0.2
Sub-Saharan Africa	6.0	1.6	3.6
South Asia (including India)	4.2	2.1	0.9
East Asia (including China)	7.3	7.8	9.4
All low- and middle-income economies	5.9	3.2	1.9
High income economies	3.8	3.2	1.7
U.S.	2.7	3.3	2.5
Japan	6.6	4.0	1.2
Germany	3.3	1.9	1.1
World	4.1	3.1	1.8

Source: World Bank (1992, 1996).

Table 2: Real earnings in manufacturing

Region	Years	Average annual rate of growth (percentage)
Sub-Saharan Africa[a]	1975-80	-0.6
	1980-88	-12.3
Latin America and the Caribbean	1971-80	-2.13
	1981-92	-3.13
East and South East Asia[b]	1971-80	5.32
	1981-90	5.12
		Index manufacturing real earnings per employee (1987=100)
South Asia[c]	1971	86.2
	1980	87.4
	1985	91.5

Source: ILO (1995), ibid.

[a] Real annual earnings per employee in manufacturing, 1987 ($).
[b] Comprises Indonesia, Republic of Korea, Malaysia, Philippines and Thailand.
[c] Comprises Bangladesh, India, Pakistan and Sri Lanka.