Globalisation and sustainable development: the employment challenge

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Globalisation and Sustainable Development:
The Employment Challenge

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1. Sustainable development and employment

- In this presentation, I concentrate on the central question of employment - a critical issue which confronts countries, both in the North and the South. The challenge is to eliminate the current mass unemployment in the North and to restore full employment, and equally importantly to provide remunerative jobs for the fast growing labour forces in developing countries in the South. It seems to me to be self-evident that in order for it to be sustainable, a liberalised global economy must be able to adequately meet this fundamental human and economic challenge.

- In the way that our societies are presently organised most people would accept that unemployment is not only an economic waste, but also leads to social degradation, to ill-health and indeed to criminality. It also lowers self-esteem, is demotivating, creates insecurity, resistance to technical change, among other things. Unemployment is therefore deeply damaging to the status of the citizen. The question of employment is crucial because of its all-pervading, comprehensive economic and social linkages. Moreover, history tells us that if unemployment reaches a high level, it often gives rise to economic and political strife, with awesome consequences. Unemployment and underemployment in the North and the South are therefore the central issues facing our societies today.

- In the South, in Latin America and Africa in particular, the labour force is growing at a rate of about 3% a year. On the basis of the past statistical relationships, in order to provide jobs just to the new entrants to the labour force, these economies would need to grow at a rate of about 6% a year. The actual rate, since the debt crisis of the 1980s, however, has been less than half of that.

- Similarly, in the rich industrial countries of Western Europe the restoration of full employment would require a substantial increase in their long-term growth rates from the present low levels to approaching those which prevailed in these countries in the golden age of the 1950s and 1960s.

2. Liberalisation and globalisation

There is a general supposition in orthodox circles, on Wall Street as in Washington:

- that liberalisation and globalisation are the order of the day,
- that particularly financial liberalisation derives from inexorable technical changes connected with information technology,
- most importantly that liberalisation and globalisation will promote faster economic growth, greater employment and improved standards of living in all societies.

3. The main theses of this presentation

In bare outline, the main theses of my presentation may be summarised as follows.

- First, I argue that such optimism is unwarranted by analysis and evidence.
- Second, that globalisation has so far not only failed to meet the employment needs of large parts of humankind, but is unlikely to be able to do so.
- Third, the failures of the liberalised global regime cannot be ascribed to exogenous factors, such as, for example, technology. These are an intrinsic feature of the regime itself, and in particular are caused in part by the liberalisation and increasing global integration of the financial markets.
- Fourth, I suggest that liberalisation is not the only strategy for the world to follow. There are feasible alternatives which are far superior in terms of creation of employment, reduction of poverty and the promotion of full citizenship, both in the North and in the South.
- Fifth, I shall argue that the implementation of these alternatives would require abandoning the current market supremacy model of liberalisation and globalisation in favour of a model which emphasises co-operative relationships between nation states and between workers and employers within nation states.

4. Discussion

I shall elaborate on these theses below, but clearly it is not possible to do proper justice to even one of them in the time available. These issues are, however, more fully discussed in some of my recent research papers which are listed at the end of this document. The interested reader may wish to consult these for more detailed analysis.

A. Unwarranted euphoria

The first point to note is that during the last 15 years or so leading advanced industrial countries have effectively worked under a regime of more or less free trade and capital movements. This is a long enough period to allow an assessment of the economic and social merits of such a regime. The record is dismal. The following points illustrate this fact.

- GDP growth in the 1980s and 1990s under liberalisation is much lower than that achieved in the illiberal and regulated "golden age" of the 1950s and 1960s.

- There has been a comprehensive failure of GDP growth in the later period: 21 out of 22 OECD countries had a fall in GDP growth.

- There has also been during this period much greater variability of both financial variables, such as exchange rates, and real variables such as GDP and its components.

- Productivity growth in the last fifteen years has been half of what it was in the "golden age".

- The critical failure, however, is with respect to employment:

  8 million were unemployed in the OECD countries in 1970. In 1994 there were 35 million unemployed, 10 per cent of the labour force

  A dramatic illustration is provided by the West German case. The average West German unemployment rate during the last 10 years of the "golden age", between 1964-1973, was amazingly only 0.9% per year. The corresponding figure during the last 10 years, 1986-1995 has been 8% per annum and rising.

B. Technology, employment and economic growth

With widespread redundancies ,the "downsizing" of businesses and job insecurity throughout the industrial world, it is commonplace to blame technology for these events. However, at the aggregate macro-economic level, this argument is hard to sustain. This is for the following reasons.

1) As noted above, there has been a trend reduction in the rate of growth of productivity during the last fifteen to twenty years rather than a trend increase. Had the pace of technical progress been actually faster, there would have been an improvement in the average productivity growth rather than the substantial observed decline. So although in individual industries faster technical progress may have caused redundancies, this factor cannot account for the overall observed increase in unemployment in industrial countries.

2) A variation on the above theme is the argument about "jobless growth". The suggestion here is that because of the nature of technical change, economic growth no longer creates jobs. This proposition may be put in a less extreme form in the economist's jargon as

suggesting that the employment elasticity of growth has fallen. Evidence, however, does not back up this claim. Empirical studies show that because of the fall in productivity growth, the employment elasticity in industrial countries has increased rather than decreased. So the reason why there is mass unemployment in Western Europe is not because there has been jobless growth, but because there has been substantially slower long-term growth than before.

3) Yet, there is a paradox about the role of technology with respect to current economic events. Scholars in this area regard information and communications technology as representing a new technical paradigm, at par with the steam engine and electricity, as being among the most significant technological revolutions of the last two centuries. The fact that despite the availability of this revolutionary new technology, productivity growth has fallen rather than improved, suggests that its potential is not being realized. Closer analysis indicates that this can be ascribed to insufficient growth of aggregate real demand and output.

C. Labour market flexibility and employment

International financial institutions often suggest that the current mass unemployment in Western Europe is due largely to the inflexibility of the West European labour markets. These markets are contrasted with those of the US and it is argued that the superior US unemployment record in the recent period is due to its much more flexible labour markets. There is a kernel of truth in this argument in that the lower US unemployment rate is indeed in part due to the lack of public provision for the relief of unemployment in the US relative to Western Europe. US workers are thereby obliged to take jobs, any jobs, regardless of how remunerative they may be. It is notable that there was no increase in the real wages of manual workers in the US between 1973-1993.

A little reflection will show that nevertheless the labour market flexibility argument is inadequate to account for the differing unemployment experiences of Western Europe and the US. To see this, consider for example labour markets and employment in West Germany and the US. The former has a comparatively inflexible labour market, but this is not only true today, it was also so in the golden age. However, in the “golden age”, West Germany managed to achieve full employment while the US did not. Moreover, the growth of real wages in West Germany in this earlier period was considerably faster than in the US. The key to this puzzle lies in the fact that West Germany in that period was growing much faster than either its current rate, or that of the US (whether now or in the earlier period).

The broad experience of developing countries since 1980 also provides little support for the labour market flexibility thesis. During the 1980s, workers in Latin America have seen sizeable reductions in their wages and also increasing unemployment. In Mexico, for example,real wages fell by 50 percent between 1980 and 1988. This was accompanied by a much slower, rather than a faster, growth of modern sector employment than before and increasing informalization of the economy. In contrast, in the East and South East Asian NICs, in the last fifteen years real wages have increased at a rate of 5% a year and so has modern sector employment. It would be difficult to ascribe the very different employment records of the Asian and Latin American NICs in the 1980s and 1990s to the relative flexibility or inflexibility of their labour markets. Rather these differences arise from the fact that the Asian NICs expanded at a much faster rate than the Latin American countries during this period.

D. Why is the world economy not growing faster?

The previous analysis suggests that in order to meet the employment challenge facing humankind, a substantial trend increase in the long-term rate of economic growth is required both in the North and the South.

This immediately raises the question whether such growth rates are feasible. Can the North for example return to the pace of economic growth it achieved in the golden age? Similarly in the South, can Latin American countries for instance attain the long-term trend rate of growth that they experienced between 1950s and 1980s?

One way of answering these questions is to ask why economic growth in industrial countries has continued to be sluggish despite the reversal of the oil price shocks of the 1970s in the 1980s and the 1990s.

The answer clearly does not lie on the supply side. Not only are there unutilised human resources, but also, as noted earlier, there is a huge backlog of technology. The full potential of the information and communications technology revolution is yet far from being realised. The central constraint on fast economic growth has therefore not been failure on the supply side. Rather the failure has been on the demand side and to that extent, it is a self-inflicted wound arising from the lack of success of co-ordinating economic mechanisms.

E. Demand failure and financial liberalisation

The analysis of the question of demand failure in leading industrial countries brings us back to the issue of liberalisation and globalisation, and particularly to financial liberalisation - the more-or-less free flow of capital between countries. This has proceeded quite far in the advanced countries and is now being rapidly implemented in many developing countries, notably in Latin America.

Very many years ago John Maynard Keynes noted “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 to matters of laissez faire is a doctrinaire delusion which disregards the lessons of historical experience without having behind it the support of sound theory.”

For reasons of space, I shall summarise a complex argument.

First, following the demise of the Bretton Woods regime, which under US hegemony provided the necessary co-ordination, the balance of payments equilibrium between countries under financial liberalisation has only been maintained at low rates of growth of real world demand.

Secondly, individual industrial countries have been obliged by financial markets to follow generally restrictive economic policies, because expansionary policies are generally punished by the markets and become unviable.

Thirdly, the much greater volatility of key financial and economic variables under liberalised global markets reinforces the tendency towards lower rates of investment, partly by raising real long-term interest rates.

The net result of these three factors is the observed lower rates of growth of real demand, output and employment.

I show in my research that the current market supremacist regime with free capital markets and flexible labour markets (as preferred by the IMF and the OECD) will not be able to provide full employment with rising real wages in the North. Nor will it be able to create sufficient work opportunities in the South.

With a constant or slow growing level of aggregate demand, more labour market flexibility will simply lead to greater competition among job seekers, and hence reduce the price of labour, often resulting in an increase in disguised unemployment. Importantly, it will also tend to pit third world workers against workers in advanced countries, leading to conflict between them.

At the international level, this could lead to competitive devaluations of the kind which occurred in the 1930s and hence to greater instability in the international economy.

5. The alternative strategy

The alternative strategy proposed in my work is based on a substantial increase in the rate of growth of real world demand. In this positive sum game, faster economic growth in the OECD countries will help developing countries in a variety of ways, which would lead to faster employment and output growth in the South. The latter in turn will help the North by positive feedback, through greater Southern imports.

It is important to appreciate, however, that the faster expansion of real aggregate demand and production in industrial countries cannot be achieved without deep institutional changes at both the national and international level. Briefly what is required at the international level

- is to give chief priority to the employment problem,
- symmetrical adjustments between deficit and surplus countries,
- macro-economic policy co-ordination between leading industrial countries via a multilateral mechanism. Originally, this was the intended role of the IMF, instead of which it has devoted itself to disciplining the South and pressurising it into trade and financial liberalisation.

Parallel to these external co-ordinating mechanisms, it is also necessary to have appropriate pay co-ordinating mechanisms within the leading industrial countries, instead of policies of labour market flexibility and deregulation. Such pay policies only work, however, if they are not seen simply as a device to reduce worker's real wages but are regarded as fair and redistributive in a progressive direction. (Indeed, my former colleague, James Meade, regarded these internal mechanisms in leading industrial countries to be more important than external ones.)

6. Sustainability and environment

It may be useful to summarise the overall argument of this presentation so far:

(a) that the current liberalised global regime will only be sustainable if it is able to deliver adequate employment opportunities in the North as well as the South.

(b) for this to happen it has been suggested that both industrial and developing countries will need to grow at a much faster rate than before.

(c) It has further been suggested that such faster growth is unlikely to be feasible under liberalisation and globalisation; it is however much more likely under a global Keynesian regime which is essentially what is sketched out above.

The faster world economic growth may however run contrary to another concept of sustainability which many would regard as equally relevant: that is sustainability in terms of ecology, nature and environment. To be sustainable in this sense, the nature and character of economic growth will need to be different. The faster growth of world demand and production will have to be consistent with ecological concerns. This will require the North to recognise the South's right to ecological space so that the South's industrial and economic development is not hindered. Both the North and South will need to economise on scarce materials and increasingly produce products and introduce processes which do not damage the environment. To illustrate if the North were to reorient its production towards services, it may help both employment and environment. This is because many services (e.g. healthcare, education) are less energy-intensive, and also tend to have a higher elasticity of employment with respect to output.

7. Transition from the current to the proposed new regime

Finally I come to the question of how we go from the market supremacist regime of liberalisation and globalisation to the global Keynesian co-operative regime. Such a transition is essentially a political process which depends on the internal politics of industrial countries in the North. It will be appreciated that, looked at objectively from the perspective of the ruling circles in the North, the present situation has many advantages. Slow economic growth has reduced the power of the unions and that of the labour movement. Externally, it has changed the balance of power with respect to developing counties. Instead of the latter demanding vociferously a new international economic order as in the 1970s, many have been converted to being supplicants before the IMF or seeing their salvation in liberalisation. So unless mass unemployment becomes politically unacceptable in the North there is no reason to expect any change.

Progressive individuals and organisations must focus on showing that:

a) Policies of liberalisation and globalisation which have resulted in mass unemployment in the North and deprivation in the South are unacceptable.

b) Full employment is not just an old fashioned idea but is eminently feasible.

c) North and South could grow in harmony in a restructured international economy.

Perhaps in some ways the most important thing is to recognise that liberalisation and globalisation are not inexorable products of information technology, as some would suggest, but the results of political decisions which can be reversed or modified if they do not serve the interests of the large majority of the population.

8. Bibliography

Those who are interested in the fuller details of the various parts of the argument which are briefly outlined above may wish to consult the following of my recent papers:

"Requisitos institucionales para el pleno empleo en las economicas adelantadas", in Revista Internacional del Trabajo, Vol. 114, No. 4-5, 1995, (pp. 529-554).

"Liberalization and Globalization: An Unhealthy Euphoria", in Jonathan Michie and John Grieve Smith (eds.), *Employment and Economic Performance*, New York: Oxford University Press, 1997, (pp. 11-35).