Employment and unemployment: North and South. Notes for a global development agenda for the 1990s.

Singh, Ajit and Zammit, Ann

University of Cambridge, South Centre, Geneva

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EMPLOYMENT AND UNEMPLOYMENT: NORTH AND SOUTH. NOTES FOR A GLOBAL DEVELOPMENT AGENDA FOR THE 1990S.

I. Introduction

1. The notes were originally prepared for the South Centre (the successor to the South Commission) as its contribution to a development agenda for the UN for the 1990s. The notes suggest employment as the central focus of the new development agenda for the global community.

2. Agendas for Development in previous decades have drawn attention to, and provided prescriptions for, a number of economic and social problems affecting/afflicting the South. The approach adopted has tended to place the major actors - the North and the South - in a donor/recipient relationship, based on notions of responsibility, solidarity and other moral compunctions. Mutual, if different, interests, if proclaimed, were never deemed sufficiently tangible in the short term to generate the required action in the North.

3. In the 1990s, despite some changes for the better in some regions, large parts of the South are confronted by problems more difficult than before, because of the set-backs suffered by these countries during the 1980s. It is not necessary to catalogue these problems, many of which in any case are interrelated. Suffice it to say that,in Latin America after a sustained rise in the previous three decades, per capita incomes fell by 10 per cent

in the 1980s. In Sub-Saharan Africa, per capita incomes fell on average by as much as 25 per cent during the same period, which has rightly been called the 'lost decade' for these two developing continents.

4. These notes propose that the policy focus for national and international action in a new agenda for development should concentrate on the central problem of creating productive employment opportunities for the South's burgeoning population and labour force into the new millennium. Employment is not only important in itself. It is crucial because of its all-pervading comprehensive economic and social linkages. Unemployment leads to poverty, social degradation, marginalization and, history tells us that, if it reaches a high level, it often gives rise to social and political strife, with deleterious consequences.

5. However, it is not the South alone that is confronted with an employment problem today. Over the last decade or more,by post-World War II standards, the industrial countries of the North have been experiencing extremely high rates of unemployment. The workers, trade unionists and politicians in these countries increasingly blame competition from cheap labour products from the developing economies for these job losses. Hence, the growing populist demands for protection in one form or another in many of these countries.

6. Eradicating unemployment and creating adequate remunerative employment opportunities is therefore a common concern in both

the North and the South. The main thesis of this paper is that in an interdependent world economy the optimal solution to the employment and unemployment problem lies in co-operative action: both regions should follow 'positive sum' policies which help to create jobs in the North as well as the South in a virtuous circle of cumulative causation. Indeed not only are such co-operative policies optimal, they are in important ways the only ones which are feasible. In other words, neither the North nor the South, can resolve this problem on its own.

7. The essential approach of this paper is historical. It looks back to a previous era of North-South co-operation in the not too distant past - the golden age of capitalist development between 1950 and 1973 - when countries in both regions prospered. Indeed during this period of high employment and growth for the world economy, the competitive game, not only between the North and the South but among nation states in general was by and large played in a non-zero sum way. The paper tries to draw lessons from this harmonious period of world economic development for the present.

II. The Dimensions of the Employment Problem: South and North

IIa. The South

8. The employment situation in the South, particularly in Latin America and Sub-Saharan Africa is dire. There are not only current high rates of urban, especially youth and 'educated' unemployment,[1]

[1] The recorded rates of unemployment in most developing

but there is also a necessity to provide productive jobs for a labour force which is growing at approximately 3 per cent a year.[2]

9. On the basis of past relationships between economic variables, to create jobs at this rate in order to meet the employment needs of new entrants to the labour force, the economies of these countries need to grow at a rate of about 6 per cent per annum.[3] If the current high levels of unemployed and underemployed in these developing countries are also to be reduced, the growth rate will need to be higher still. Unfortunately, in the "lost decade" of the 1980s, the rate of economic growth has been considerably less than is required: it has been only of the order of 2.1 per cent per annum in Sub-Saharan Africa and 1.6 per cent per annum in Latin America. [see Appendix, Table 1].

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countries tend to be relatively low. This is because in the virtual absence of a publically provided social security system, people are obliged to engage in any economic activity, howsoever non-remunerative and non-productive that may be. The problem of 'unemployment' in poor countries, therefore, manifests itself generally in the form of what Joan Robinson called 'disguised unemployment', or as 'underemployment'.

[2] The world labour force in 1993 is estimated to be 2.4 billion people, of whom 1.8 billion (75 per cent) are in developing countries. The United Nations estimates that the labour force in developing countries will in the foreseeable future grow at a rate of approximately 3 per cent per annum. In Africa, the rate of labour force growth is expected to increase to 3.5 per cent a year. [UN, 1993].

[3] To illustrate, the rate of growth of labour force in Mexico is about 3 per cent p.a. The long term trend rate of growth of productivity in the period 1950-80 has also been about 3 per cent p.a. This means that GDP needs to grow at nearly 6 per cent per annum in order just to provide jobs for the new entrants in the labour force. Similarly, the UN Social Report [UN 1993] notes that since about one half of all output accrues to labour, developing economies will need to grow at 6 per cent a year, during the present decade, in order to absorb the growing labour force at current levels of income.

10. One outstanding success story for the South during the recent period has been the extremely good economic performance of the Asian countries, particularly those in East Asia, including China. In contrast with the Latin American and African countries which suffered economic collapse in the 1980s, the East as well as the South Asian countries either maintained their high previous momentum of economic growth or achieved a trend increase in it. The industrial revolution, which has been interrupted in Africa and Latin America, proceeded apace in these Asian countries, leading to substantial creation of new jobs and higher real wages.[4] However, even these countries are faced with a serious potential employment problem.

11. In countries like China and India, while agriculture accounts for a decreasing proportion of national output as they industrialize, the bulk of their population and labour force is still engaged in agriculture. The challenge in these countries is to provide adequate employment opportunities in industry and services as people leave the rural sector. Given the size of the rural population, this is an enormous task.

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[4] The South and East Asian countries recorded an increase of more than 50 per cent in their per capita incomes in the 1980s. This compares, as noted earlier, with significant reductions in per capita incomes in Latin America and Sub-Saharan Africa in the 'lost decade'. There is a large literature on why the Asian countries succeeded and the Latin Americans so comprehensively failed in this period. For different views on this subject see among others, Sachs (1985), World Bank (1991, 1993), Fishlow (1991), Hughes and Singh (1991), Singh (1993). The reasons for the economic failure in Sub-Saharan Africa are discussed in Singh (1987, 1994).

12. The employment question is directly linked to that of the reduction of poverty. At the microeconomic level a reasonably remunerative job will keep a family out of poverty. At the macroeconomic level, the relationship between the two, even though indirect, is equally close. Just as the creation of sufficient employment opportunities requires a reasonable rate of economic growth, so does the eradication of poverty and meeting the minimum basic needs of the people.[5]

13. Although at any one time, a redistribution of national output may enable a society to better meet the basic needs of its people, on a longer term basis such needs can only be met if there is an expansion of the national economy. Economic growth generates increased employment and household incomes; equally importantly, it increases government revenues, which may be spent on health, education, clean water supplies and other basic needs of the people.[6]

[5] For the relationship between employment, basic needs, poverty and economic growth, see Singh (1979, 1992). See also ILO (1976).

[6] In its influential 1976 report, the ILO estiamted that even allowing for some redistribution of incomes, if the minimun basic needs of the poorest 20 per cent of the Third World's population were to be met by the year 2000, their economies would have to grow at an annual average rate of 7 to 8 per cent a year. These rates are not all that different from those required to create sufficient employment opportunities for the South's growing population.

During the last 15 years, those economies (mainly in Asia) that were able to achieve such high rates of growth have succeeded in significantly reducing poverty in their countries. On the other hand, low economic growth in the Latin American and the African countries over the recent period has had a serious negative effect both on poverty and employment generation in these economies.

IIb. Unemployment in the North

14. The European economies are today experiencing very high rates of unemployment. The current rates in leading economies like France, Italy and the United Kingdom approximate 10 per cent of the labour force. In Spain and Finland, the unemployment rate is over 15 per cent. In Sweden, which maintained high levels of employment throughout the slow-growing 1980s, the rate of unemployment has increased from 1.5 per cent of the labour force in 1990 to well over 10 per cent now in a very short period of time.

15. The United States has experienced somewhat lower unemployment than the European countries.[7] One reason for this is that the welfare provision in that country is not as extensive as that in Europe, so that many people are obliged to seek work even at non-remunerative wage levels. It is striking that in the U.S. economy average real wages have hardly increased over the last twenty years.[8] Thus a large proportion of individuals and families are living below the poverty line. Hence the emphasis and the political compulsions of the present U.S. administration are on

[7] Between 1983 and 1992, the average unemployment rate in France, Italy and UK was around 10 per cent of the labour force. The corresponding figure for the US for this decade was 6.7 per cent. Eatwell (1994, page 5).

[8] The average real compensation of the American worker in 1991 was only 6 per cent higher than it had been in 1973. Moreover, compensation has risen only for the highly educated workers; the real wages of blue collar workers have fallen in most years since 1973. Krugman and Lawrence (1993).

creating remunerative jobs, not just any jobs.

III. Current Employment Challenge in Historical Context

16. In the context of post-war economic history, the current high rates of unemployment in the North are a relatively recent phenomenon. During the 1950s and the 1960s, leading countries of the North not only enjoyed full employment but had over-full employment. In addition to being able to employ all their own people, these countries also provided jobs for additional labour from abroad. In countries like France and West Germany nearly 10 per cent of the labour force came from abroad. The contrast with the current employment situation could not be more striking.

17. The period 1950-1973 has been aptly described as the Golden Age of the world economy. In the advanced economies during this period, there was a historically unprecedented expansion of production and consumption at a rate of nearly 5 per cent a year. This was accompanied by a huge increase in world trade, particularly in the export of manufactured products, The latter grew in volume terms at a very fast rate of nearly 10 per cent a year. Most developing countries also participated in and benefitted from this world wide prosperity. Many Asian and Latin American countries embarked on a veritable industrial revolution in these post-war decades.

18. The Golden Age of simultaneous prosperity for the North and

the South evidently came to an end with the first oil shock in 1973. Since then, the rate of growth of the OECD and the world GDP has nearly halved. Significantly, the recorded rate during the last twenty years is much more in line with the long term trend rate of growth of industrial countries in the hundred years before the Golden Age. (Reynolds, 1983; World Bank, 1987). It is therefore not surprising to find the high rates of unemployment recently experienced by the OECD -- rates which were unthinkable in the preceding period. It is for the same reason, that for a large number of countries in the South, in contrast to the industrial revolution and significant rises in the average standard of living of the Golden Age, the last fifteen years have been marked by de-industrialisation and considerable falls in per capita incomes. The end of the Golden Age has also coincided with a significant deceleration in the expansion of world trade in manufactures.

19. The central issue for the world community is whether such a dynamic period associated with fuller employment can be re-created. This hinges on understanding how this Golden Age of plenty of jobs and fast economic growth for an extended period of nearly a quarter of a century occurred and why it ended.

IV. The national and international institutional arrangements which made possible full employment in the North and fast economic growth worldwide.

20. Considered purely in statistical terms, in the long history of economic development in industrial countries, the post-war quarter century of the Golden Age appears to be a historical aberration. Measured in terms of the rates of growth of output, productivity, capital stock, the period 1950-73 in advanced economies as a whole unquestionably represents a highly distinct deviation from the long-term trend values of these variables over the last two centuries. (See Glyn,Hughes, Lipietz and Singh,1990; Maddison, 1982).

21. Turning to economic analysis, detailed examination of the data show that the length, steadiness, speed and spread of the Golden Age economic boom was such that the they could not be accounted for by an accidental combination of favourable economic circumstances. Rather, the extraordinary economic performance of the industrial countries was brought about and sustained by a unique historical conjuncture which created a specific <u>economic regime</u>.[9] This regime, which differed in very important respects from the inter-war pattern of development, made full employment of labour force and full utilisaton of resources, a primary objective inter alia for the governments to pursue.[10]

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[9] For reasons of space, what follows is necessarily a highly schematic and condensed account of the analysis of large question: why did the Golden Age arise and why did it come to an end? This summary is based on Glyn, Hughes, Lipietz and Singh (1990) to which the reader is referred for a full discussion of these issues. For some alternative interpretations, see Maddison (1982); Bruno and Sachs (1985); Matthews and Bowen (1987); Kindleberger (1993).

[10] How this economic regime came to be established in the post-war period is a complex phenomenon which had a great deal to do with the contention between the liberal, free market capitalist world economic order led by the United States and the alternative, represented by the then triumphant Soviet Union. It

22. The most important macro-economic characteristics of the Golden Age pattern of economic development were:

(a) rapid and parallel growth of productivity and capital stock per worker:

(b) parallel growth of real wages and productivity.

The significance of these two relations is that they guarantee both a roughly constant profit rate and roughly equal growth of consumption and production, thus ratifying and maintaining the initial rate of accumulation. However, such a macro-economic growth path could only be perpetuated if it were compatible with the behaviour of individual economic agents - firms , workers, consumers. This compatibility in the Golden Age was insured by a social consensus around institutional arrangements in respect of setting of wages and prices, the distribution between wages and profits, and the state fiscal, credit and welfare policies which guaranteed minimum living standards and maintained aggregate demand. In the sphere of wage setting, for example, productivity wage bargaining which flourished during this period played a key role both in keeping a rough constancy of the share of wages and profits in the national product and also in helping to provide an adequate rate of growth in consumer demand. Similarly, at the international level, under the leadership of a singe hegemonic

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will be recalled that at the end of the second world war the Soviet model had important attractions for people in Western Europe. The country had just played a critical role in defeating fascism; the crimes of the Stalin era had not yet been revealed. Equally importantly, compared with the mass unemployment in the inter-war period in the industrial countries, Soviet planning was regarded as having achieved full employment of resources. See further Glyn, Hughes, Lipietz and Singh (1990).

power for much of this period, the US, the global economic system functioned under stable monetary and trading arrangements.

23. The process of the erosion of the Golden Age began well before the oil price shock of 1973. Serious difficulties arose at the levels of both the national and the international regulatory regimes; these began to interact with each other in a cumulatively adverse way to the detriment of the system as a whole. The Bretton Woods monetary system broke down in the late 1960s, partly as a consequence of the success of the Golden Age itself - the rise of the Japanese, the West German and other European countries in the international market place led to serious balance of payments problems for the US, hitherto the lynch pin of the international system. There is also evidence of a productivity slow-down by the late 1960s in several leading industrial countries, which was not matched by a deceleration in the rate of growth of real wages, thus leading to a profit squeeze.

24. By the early 1970s, the Golden Age system was so fragile, that it disintegrated under the impact of the two oil shocks, thus pushing the world economy into a period of prolonged slow growth which began in 1973. The social consensus of the Golden years which was crucial to the functioning of the economic system as a whole broke down. For a while, after the first oil shock, the governments of the OECD countries tried to restore the Golden Age institutional consensus, by following expansionary economic policies. But, since inflation could not be controlled, this attempt was finally abandoned in 1979.

25. This abandonment was symbolized by the so-called 'Volcker shock' (named after the then Chairman of the U.S. Ferderal Reserve, Paul Volcker). This resulted in the implementation of deeply contractionary monetary policies in the United States and these were subsequently widely imitated elsewhere, particularly in the UK. These policies led to a more than ten fold jump in real interest rates compared with the preceding period and gave rise to a prolonged recession in the industrial countries.

26. The effects on the Third World countries of these measures was devastating. They were disadvantaged through the following main channels: a) a reduction in the demand for the South's products in the North; b) as a consequence, a big fall in commodity prices and adverse terms of trade; c) a big rise in debt service payments; d) a sudden and a large fall in normal capital flows to the South, particularly to the African and Latin American economies. The net result has been a long economic crisis and the 'lost decade' of the 1980s for a large parts of the South.

27. In the 1980s and into the 1990s, the leading OECD governments have been attempting to create a new economic system based much more on free market principles but this does not yet command a broad social consensus in these countries. In pursuit of this objective, there has been a widespread movement towards "privatisation", "de-regulation" and the erosion of Golden Age arrangements with respect for example to wage bargaining and to the provisions of the welfare state (with the professed aim of

increasing labour market flexibility).

28. At one level this post-1980 development model has had some success - the most conspicuous being the sharp decline in the OECD rate of inflation. Instead of 'stagflation' of the 1970s - ie. low growth and high inflation - the 1980s and the 1990s so far, have been characterised by low growth and low inflation. However, against this, as noted earlier, most OECD countries, especially in Western Europe, are suffering from very high rates of unemployment. There are also large payments imbalances among the leading countries as well as fragile financial markets. On present projections of leading international organizations, the prospects for an appreciable increase in rates of economic growth and for a substantial reduction in unemployment in the OECD economies, in the foreseeable future, are rather gloomy.[11]

29. However, notwithstanding the fall of the Golden Age and the consequent slow-down in the growth of world production and trade, it is important to appreciate that the world economy is far more integrated than ever before. If greater economic integration is

[11] With respect to unemployment in Europe, Dreze and Malinvaud(1993) observe: "The Annual Economic Report of the EEC for 1993 advocates a forcast of GDP growth for 1993 of less than 1%, with employment falling and unemployment rising to similar extents. More significant perhaps is the medium term assessment. "Estimates of potential growth are always difficult to make, but it seems clear that without a significant break from recent trends that the Community economy can only be expected to return gradually to rates of growth to between 2 to 2.5%. These are barely sufficient to stabilise unemployment and do not open up any medium term prospect of significant reductions". Even if in 1995-96 growth were to return to rates of about 3%, as various medium-term forcasts suggest, unemployment could be still as high as 10 to 11%".

supposed to lead to more efficient resource utilisation and hence faster economic growth, as the Bretton Woods institutions contend, this clearly has not happened. Be that as it may, close international financial integration has been a particularly significant feature of the post-1973 world economy. Such integration has been brought about by the more or less complete abolition of exchange controls in leading industrial economies and the globalisation of the stock markets. (Cosh, Hughes and Singh, 1992).

V. Post-War Industrial revolution in the Third World and its interruption in the 1980s in Africa and Latin America.

30. Prior to the economic crisis of the 1980s, the post-war era from 1950 to 1980 was also, in an important sense, a Golden Age of development for the poor countries of the world. During this period, developing countries on average made historically unprecedented economic and industrial progress. In the propitious circumstances following the end of the Second World War, many of these countries, particularly in Asia and Africa, began to carry out an industrial revolution - a revolution that they had been prevented from implementing fifty or a hundred years earlier, on account of the rather different world economic and political conditions which then prevailed. Even developing countries in Sub-Saharan Africa, which started with extremely unfavourable initial conditions when colonial rule ended, managed to increase

their share of world manufacturing production during the 1960s and the 1970s. More significantly, a group of Asian and Latin American nations - the so called NICs - were especially successful in the post World War II period in establishing technical, scientific and industrial infrastructures, in training their labour forces, in creating managerial and organisational capacities and in developing broad based industrial structures. By the 1970s these countries were beginning to provide formidable competition to the rich industrial economies in a range of consumer and producer goods industries.

31. In statistical terms, the Third World's economic achievements of the three decades 1950-80 are a story without parallel in world development history. During this period, the South surpassed the 80-year record of the North's 19th century (1820-1900) advance. The South did this in half the time, at twice the growth rates and with five times the North's population in the 19th century.[Patel,1992].

32. In addition to these economic gains, the Third World countries during this period also made extraordinary advances in the social fields of health and education. Consider for example literacy rates. The North's rates have been estimated to have averaged below 25 percent in 1850 and below 50 percent in 1900. The corresponding level of of literacy in the South was about 30 percent in 1950. By the 1980s, however, it had risen to 50 percent in Africa, 70 percent in Asia and 80 percent in Latin America. More significantly, despite all the shortcomings both in the data itself

and in the quality of education imparted in developing countries, the North-South educational gap narrowed spectacularly during these decades of relative prosperity.

33. Similarly this period witnessed vast improvements in public health and life expectancy in the South. Life expectancy rose from around 40 years in 1950 to 60 years by the mid 1980s - in other words 20 years were added to the life of the average citizen of the South. Life expectancy for the females increased even more than for males almost everywhere in the South.

VI. Does the South's Industrial Revolution Cause Deindustrialisation in the North?

34. The impressive industrialisation of the Third World during its Golden Age raises the important question whether it is responsible for deindustrialisation and the rise in overall unemployment in the advanced countries. It is indeed true that during the last two decades manufactured exports from the South to the North have been rising at a fast rate[12]. It is also the

[12] To illustrate, between 1965 and 1973, the rate of growth of manufacturing exports of the developed countries was much the same as that of the developing countries - about 10% per annum at constant prices. Between 1973 and 1985, the former's exports grew only at 4.4 per cent per annum, whilst the latter's increased at an incredible 12.3 per cent per annum. Moreover, much the larger part of the Third World's manufactured exports go to the North. Further, there is evidence that the developing countries are exporting not only the traditional labour intensive and resource based products, but are also recording a very fast growth in the exports of a variety of products of capital goods industries. (World Bank, 1987; UNCTAD, 1993)

case that in industrial countries the share of output and employment in manufacturing, particularly the latter, has fallen substantially in the same period[13]. The salient analytical question is whether this is just a coincidence, or whether one has caused the other.

35. This is by no means a straight forward issue, since de-industrialisation and the rise in overall unemployment in the industrial countries can be caused by a whole range of other factors as well. For example, a falling share of manufacturing employment in the labour force is a long run phenomenon of economic development which arises from technological change and the faster growth of productivity in manufacturing than in services. De-industrialisation in this sense may simply be like de-ruralisation(ie. falling share of agricultural employment) which has occured in the course of this century in most advanced countries, without any neccessarily negative economic conotations. Nevertheless, it is possible for de-industrialisation in a particular country to occur at a rate that is much too rapid so that the economy is prevented from achieving its full potential.[14]

36. In view of the complexity of the subject, there is no agreement

[13] In the US, manufacturing employment as a percentage of civilian employment has fallen from 24.2 per cent in 1974 to 18 per cent in 1990; in the UK the corresponding figures are 34.6 and 22.5 per cent; in Japan 27.2 and 24.1 per cent and in Germany 35.8 and 31.5 per cent respectively. OECD (1992).

[14] See Singh(1977); Carincross(1979).

in the literature on the appropriate theoretical or empirical models for analysing the impact of Third World competition on manufacturing output and employment in the North. There exist instead alternative paradigms, which lead to very different policy conclusions. According to the dominant neoclassical paradigm, trade does not cause unemployment (see, for example Malinvaud). The observed de-industrialisation in advanced countries, is ascribed in this doctrine to the following two causes: (a) the long-run factors mentioned above which lead to a shift from manufacturing to service employment; (b) it is argued that the comparative advantage in a range of manufactured products has shifted from the North to the South. This leads to a temporary problem of structural adjustment for which the proper remedy is to reduce the rigidities in the North's labour markets rather than to call for protection or subsidies. [15]

37. Building on the work of Sayers and Kaldor, Singh (1987,1989,1990) put forward an alternative non-neoclassical conceptual framework for investigating this issue. In this framework, although the long-term factors of economic development do cause de-industrialisation in advanced countries, trade can also significantly contribute to it and to overall unemployment. Singh advanced twin concepts of an 'efficient manufacturing sector' and that of 'long-term structural disequilibrium' for examining this issue for an advanced economy like the UK. His

[15] This view is best expressed in Beenstock (1984) and in the recent American Express Gold Medal winning essay, Brown and Julius (1993).

analysis suggests that industrial countries with 'inefficient manufacturing sectors' or those in 'long-term structural disequilibrium' can be seriously disadvantaged by trade (which could lead to speedier de-industrialisation as well as to rising overall unemployment). In summary, in Singh's framework, the answer to the question whether, and to what extent, deindustrialisation in an advanced economy is due to third world competition in manufactures, requires the following chain of causation to be established:

(a) Taking into account its interactions with the rest of the world, is the economy in 'long-term structural disequilibrium' ?[16]

(b) If so, is this disequilibrium due to trade in manufactures rather than, for example, to trade in services?

(c) If the structural disequilibrium is, indeed, because of the trade in manufactures, is this due to competition with the Third World or with other advanced countries (eg. Japan)?

38. Singh's (1989) empirical analysis for the 1970s, showed that for an advanced industrial economy with an 'inefficient' manufacturing sector like the UK, trade in manufactures did lead

[16] An advanced country like the UK is regarded as being in long term structural disequilibrium if its manufacturing import and export propensities are such that the country is unable to achieve current account balance at a desired level of employment and a desired rate of growth of real wages. In this conceptualisation, for an industrial country, manufacturing performance in the world economy is regarded as the key to the achievement of the desired current account balance (and hence the country's ability to reach its long term growth potential).

to a <u>net</u> loss of jobs.[17]. But importantly, the study also showed, that it was not manufacturing trade with the third world but rather with the other advanced countries which was the main cause of the disequilibrium. On the contrary, Singh estimated that at least in the 1970s, UK manufacturing trade with the newly industrialising countries, led to an increase in trade balance, and hence in total output. It probably also generated a small net rise in employment rather than a fall. However, the econometric analysis also showed that there was evidence that if British industry did not become more efficient, in the longer term Britain's trade with the NICs is likely to become as disequilibriating as that with the advanced countries.

39. In analysing the impact of third world competition on advanced industrial economies as a whole, the important conceptual point in Singh's analysis was to distinguish between countries like the UK with 'inefficient' manufacturing sectors (which led to these economies being chronically balance of payments constrained at desired levels of output and employment) and those like Japan and West Germany with 'efficient' manufacturing industry (i.e. industry generates enough net exports to ensure the required current account balance at desired levels of employment or overall economic growth). Empirical evidence (see OECD 1979) indicates that the North's trade balance in manufacturing with NICs was

[17] "Gross job" losses, however, can and often do cause enormous social distress even if there is equivalent employment created elsewhere. New service sector jobs often pay less and are less protected by union rights and other benefits than the manufacturing jobs that dissappear. Bluestone and Harrison (1982) called particular attention to this phenomenon.

positive and it increased over the period 1970-77. This suggested that even if in some balance of payments constrained advanced countries, manufacturing trade with NICs had become disequilibriating in the 1970s, it was likely in general to have been a far smaller source of disequilibrium than the trade among the industrial countries themselves.

40. In the 1980s the situation has been rather different. There is, for example, evidence of a significant job losses in the U.S as a result of its manufacturing trade with developing countries. But, barring a few East Asian countries, as Marshall (1989) rightly pointed out, this fall in employment was much more due to a loss of U.S exports rather than to a huge increase in imports. The U.S merchandise exports to the developing countries declined by 24.4% in real terms between 1980 and 85 compared with 11.7% reduction in total exports. This was, however mainly due to `import strangulation' in developing countries as a consequence of the debt crises. (Singh, 1986, Khan and Knight, 1988). The U.S exports to heavily indebted Latin America countries fell for example by 30.9% during this period. On the other hand, job losses arising from the U.S trade with an industrialising economy like Taiwan, which was running sizeable trade surpluses in the 1980s was more likely due to its greater penetration of the U.S market. Taiwan was not subject to import compression arising from the debt crises in the way the Latin American countries were in the last decade.

41. To sum up, the evidence suggests that in the 1970s the

North-South trade in manufacturing poducts did not in general lead to trade imbalances or a net loss of either manufacturing or total output in the North; rather it provided a positive impulse to industrial development in the advanced countries. The main reason for this is that although the NICs manufactured exports to the North expanded very fast, the North's exports to the South grew even faster in the 1970s. The developing countries need technology and capital goods from the advanced economies. The NICs used the opportunity provided by easy availability of credit at almost zero real interest rates in the mid 1970s to greatly increase their imports of capital goods to accelerate their industrialisation process. However, in the 1980s, as a consequence of the debt crisis Latin American NICs became severely balance of payments constrained and they were obliged to sharply curtail their imports from industrial countries. Indeed, during much of the 1980s, the Latin American countries were running trade surpluses amounting to as much as 5 per cent of their GDP. They were obliged to do so in order to pay debt service to the North's banks. As a consequence the North-South trade in manufactures in the 1980s provided a negative impulse for the Northern industrial economies.

41. This analysis suggests that in general because of the very high propensity to import of the developing countries, the North-South industrial trade should not be diseqilibriating for the North. It could, however, exacerbate the existing disequilibrium between the strong and the weak industrial countries. To illustrate, China today has a large trade surplus with the United States, but an even larger deficit with Japan.

Thus China's overall trade with the North is not a source of disequilibrium. The basic problem here is that presumably because of the greater competitiveness of Japanese capital goods industry relative to that of the US, China exports (generally consumer goods) more to the US and imports more from Japan (capital goods).[18]

VII. Meeting the New Challenge

42. It was noted in section III that the second oil shock saw the final abandonment of what may be called the Golden Age pattern of development (encompassing both the internal and external rules of co-ordination of the economic system). It is beyond the scope of these notes to provide a full discussion of the emerging post-1979 pattern. However, it may be briefly recalled that at the international level, instead of attempting to compensate for the deflationary effects of the 1979 oil price rise, restrictive monetary and fiscal policies were strongly reinforced in the U.S and adopted by other main industrial countries. In an international economy, ever more closely linked by `free' and gigantic capital movements this resulted in the early 1980s in a` beggar-my-neighbour' competitive deflation and a prolonged recession.

[18] There are other apects of the impact of North-South manufacturing trade on the North's economies. Specifically, it has been suggested that the stagnation and decline of real wages of the blue-collar workers in the US and the growth in wage inequality between skilled and unskilled workers in the recent period has been due to cheap labour imports from developing countries. Krugman and Lawrence (1993), Freeman (1993) and Lawrence and Slaughter (1993) provide analysis and evidence against this thesis. For a different perspective, see Wood (1994).

43. Although the retreat from the Golden Age institutional arrangements has inevitably occurred at different speeds in the various countries, there has broadly been a common overall pattern. The specific measures implemented for this purpose since 1980 have included: legislation to restrict the role of the unions (UK, Germany); abolishing norms of indexation (Italy); relaxing employment protection legislation (UK, France); relaxation of labour standards and restrictions on welfare provisions (in most countries); significant steps towards marketisation and privatisation (almost everywhere). Moreover, in the adoption of rules about monetary growth and public sector deficits in most countries, there has been an implicit abandonment of the full employment policies of the Golden Age. The countries of the South have also had to implement similar arrangements in order to meet the conditionalities of the Bretton Woods institutions.

44. For vast numbers of people in the South and in the North, the post-Golden Age economic era has been exceedingly bleak. In many countries in Africa and Latin America, real wages have fallen drastically to the order of 50 per cent or more, and there have been vast cut-backs in employment and, instead of a continuing industrial revolution, there has been de-industrialization.

45. Similarly in the North, there has been an enormous increase in the amount of unemployed, cuts in social provision and a much reduced quality of life for the bottom 30 per cent or so of the population. It is therefore not surprising that the new post-Golden Age economic regime has still not gained widespread

acceptability in the advanced countries. As noted earlier, the only major success which can be claimed for these policies is a fall in the rate of inflation in these economies. However, this 'victory' over inflation has come at an exceptionally high cost in terms of social justice and economic efficiency. The extension of the role of free markets in the name of efficiency has, paradoxically, generated massive inefficiency characterized by a huge underutilization of resources worldwide, not least human resources. Thus the average unemployment rate has gone up from 0.79 per cent of the labour force in West Germany during the Golden Age decade, 1964 - 1973, to over 6 per cent in the recent decade, 1983 - 1992. In France, the corresponding increase has been from 2.2 per cent to 9.7 per cent of the labour force, in the UK from 2.9 per cent to 9.8 per cent. Eatwell(1994).

46. It has been suggested by some that the present unemployment problems in the world economy, and particularly in the North, have been caused by the new technological revolution, based on information and communications technology. However, the evidence does not support this view, since what the world has witnessed in the post-Golden Age period has not been a rise but rather a fall in the rate of growth of productivity. More extensive or faster technological change should lead to greater, rather than slower, growth of productivity. Indeed, if productivity growth had been as fast as during the Golden Age, the number of unemployed would have been far greater than they already are, given the slower rate of growth of production.[19] What this means is that the full

[19] See further Eatwell (1994); Singh (1994);

potential of the new technology has not been realized.

47. In addition to the analysis of Section VI, the following comparison between the Golden Age and the post-Golden Age periods is relevant to the question of the impact of competition from cheap labour products from the South on unemployment and real wages in the North. Krugman and Lawrence (1993) point out that in 1990, US imports from low wage countries, defined as countries with wage rates less than half the US level, were only 2.8 per cent of GDP. Such imports - using the same definition as before, i.e. countries paying less than half the US wage - were almost as large in 1960, 2 per cent of GDP. These imports at that time came from the then low wage countries in Europe as well as from Japan. Yet during the Golden Age the average wage of the American worker more or less doubled, whilst, as noted before, it has hardly increased in the two decades since then. The average rate of unemployment in the US between 1964 and 1973 was 4.46 per cent compared with 6.69 per cent between 1983 and 1992.

48. It is commonplace for international economic organisations to argue that the rise in unemployment in the 1980s, particularly in the European countries, has been due to labour market rigidities and the inflexibility of real wages.[20] Countries , not just in Europe but everywhere, are therefore urged to institute wage and labour market flexibility as the best way to reduce unemployment. The proposition in this form cannot withstand serious scrutiny.

[20] see for example IMF (1994)

For example, in the 1980s countries in Africa and Latin America have had massive cuts in real wages. Yet, instead of an increase, they have had a decrease in the level of employment. On the other hand in the Asian countries, real wages have risen at a fast rate and so has employment. Similarly, in the North, the labour markets have been much more flexible in the 1980s than they were in the 1960s, yet the 1960s were characterized by full employment and the 1980s (and the 1990s) by large scale unemployment. There is thus no reason to believe that further labour market flexibility in the North and in the South, as demanded under the current economic regime, will by itself give rise to adequate productive employment opportunities.

49. Clearly, the massive rise in unemployment and much reduced economic growth in the North in the post-Golden Age era, are not mainly due to new technology, cheap labour competition from the South or the domestic labour market conditions, but are essentially caused by a reduction in the trend rate of growth of world demand, compared with the earlier period. The change in the monetary and fiscal policy stance of the OECD governments, which put the fight against inflation as the primary objective of economic policy in the 1980s, has been a major factor in the reduced rate of growth of world demand. The latter needs to expand at the rate it did in the 1950s and the 1960s, if the world economy is to achieve sufficient growth to bring about full employment of material and human resources in the North and the South.

50. The South itself can take certain steps to improve the

employment and poverty situation both through appropriate national policies and greater South-South co-operation. However, despite the increased economic strength of a number of developing countries, and in view of the great degree of North-South interdependence, the South also needs expansionary measures to be taken in the North. The North, in addition to taking its own measures to deal with its employment crisis, also needs a substantial improvement in the levels of employment and standards of living in the South. Not only does it require markets and outlets for investment, but development in the South would help reduce the flows of labour from the South searching for employment in the North. To advance on each of these fronts requires action on a third: North-South co-operation.

52. However, the demand constraint on world production is not technical: rather, the constraint is deeply institutional. It cannot simply be relaxed by the leading Northern governments changing their fiscal and monetary policies. A sustainable increase in the rate of growth of world demand will only be possible if the confrontational free market pattern of development of the 1980s is abandoned and replaced by more co-operative institutional arrangements involving workers, employers and governments in the North as well as more co-operative relationships between the North and the South.

53. What would happen if such co-operative arrangements were not in place and the OECD governments followed expansionary policies in order to reduce unemployment and the world rate of economic

growth rose on a sustained basis to any where near the Golden Age levels? Most likely it would lead to increased labour strength and militancy in the North in pursuit of higher wages and better employment conditions, as well as to a sharp rise in world commodity prices, including oil.[21] This in turn would rekindle inflation and thwart the expansionary process.

53. Thus growth rates approaching the Golden Age levels (the sort of level required to resolve unemployment problems), with low inflation, will only be feasible and sustainable if three basic conditions are fulfilled. First, a new institutional and behavioural framework is required internally within the North. And within the South, a major change in policy direction is generally required. On the global scale, a rather different system of international arrangements between the North and the South is necessary, involving, among other things, some scheme for orderly commodity price movements hitherto rejected by the leading OECD governments. Only if such a mutually co-operative pattern of development is instituted would the world be able to begin to meet the challenges of the 1990s and beyond. If this opportunity is missed, the prospects for employment, democracy and social justice, and for political stability would not appear to be very strong.[22]

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[21] The sharp fall in real commodity prices in the 1980s has been a primary factor in reducing the rate of inflation in industrial countries to a low level. See Beckerman and Jenkinson (1986).

[22] Moreover to be sustainable, such faster growth of world demand and production will have to pay full attention to ecological concerns. This will require the North to recognize the South's right to 'ecological space', in the sense of recognizing that,

Ajit Singh and Ann Zammit
Faculty of Economics South Centre
Cambridge Geneva

APPENDIX

Table 1

Growth Performance in Developing Countries
by Category (a) and Region (b)
1965-80 and 1980-90

	Average Annual Growth Rate of GDP (%)	
	1965-80	**1980-90**
Low income economies	4.9	6.1
China	6.8	9.5
India	3.6	

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but for the South's underdevelopment, the current and looming environmental threats would be that much greater. The South's development cannot be prohibited on environmental grounds. Both North and South will need to economize on scarce materials, and increasingly produce products and introduce processes which do not damage the environment.

		5.3
Other low income	4.8	3.9
Middle income economies	6.3	2.5
Sub-Saharan Africa	4.2	2.1
East Asia and Pacific	7.3	7.8
South Asia	3.6	5.2
Latin America and Carribean	6.0	1.6

Notes:

(a) The World Bank defines "low income countries" as those with per capita income of $580 or less in 1989. Middle income countries are defined as those with income per capita of more than $580 and less than $6000.

(b) For the lists of countries included in each region, see the source listed below.

Source: World Bank, World Development Report 1992

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