

GODFREY
Global Unemployment

Global Unemployment: The New Challenge to Economic Theory

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Global Unemployment

BY THE SAME AUTHOR:

Planning for Basic Needs in Kenya, with Dharam Ghai and Franklin Lisk, (ILO, Geneva, 1979)

Essays on Employment in Kenya, with Dharam Ghai, ed., (Nairobi, 1979)

Politics, Economics and Technical Training. A Kenyan Case Study, with G.C.M. Mutiso, (Nairobi, 1979)

The Struggle for Development: National Strategies in an International Context, with Manfred Bienefeld, ed., (John Wiley, 1983)

A World of Differentials: African Pay Structures in a Trans-national Context, with others, (Hodder and Stoughton, 1983)

For Rosie

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Preface

This book represents an attempt to combine a review of theorising about the nature, causes and consequences of unemployment and under-utilisation of labour in both industrialised and underdeveloped economies with a consideration of the implications for such theories of recent changes in the world economy. The hope in the review (in Chapters Two to Eight) is not so much to achieve comprehensive coverage, impossible in the space available, as to capture the *essence* of the approach of each of the various schools.

The problem in any such attempt at classification is that there are many ways in which the cake could be cut. Some, for instance, may dispute the need for a separate chapter on 'demand-side' development economics (Chapter Seven). Others may prefer a different schema for post-classical employment theorising in industrialised economies. For instance, David Evans has suggested that it would be preferable to use conceptualisation of the social or political economy as the criterion for separating two broad schools of thought. Thus from British classical political economy there would follow the general equilibrium theorising of Walras, Jevons, Menger, etc., with its social conceptualisation and continued acceptance of Say's Law. Keynes would be seen as being in the tradition of this school, with the single exception that he does not accept Say's Law, while the modern believers in voluntary unemployment would trace their lineage back to it via Pigou and Marshall. The other broad stream, he suggests, would flow through Marx to Kalecki, whose rejection of Say's Law is combined with some conceptualisation of the social/political economy. This schema differs from ours (in Chapter Three) primarily in its separation of Keynes from Kalecki rather than of both of them from the neoclassical economists. This makes a lot of sense in itself on the criterion suggested and is also a useful reminder that different taxonomies will be relevant for different purposes. At any rate it is hoped that ours is

sufficiently clear to enable readers to make their own rearrangements as required.

The recent changes in the world economy on which attention is concentrated are: the increasing location of industrial production for the world market in the underdeveloped economies of the South as well as the industrialised economies of the North; the extensive use made by Northern employers of Southern migrant labour; and, more recently, the growth of unemployment in the North to levels and rates unheard of since the 1930s. An attempt is made, in the light of these changes and building on the review, to chart (rather than to explore in detail) new directions for theory which would break down the barrier between short-run theorising for industrialised and long-run for underdeveloped economies and analyse processes at a global as well as a national level. The focus throughout is primarily on theory and, while it is recognised that theory cannot be discussed in isolation from history and policy, it is also recognised that two volumes would have been necessary to give adequate treatment to these aspects. Wherever possible readers are given references which will enable them to pursue the issues further.

Various debts must be acknowledged. The heaviest are owed to Philip Leeson and Manfred Bienefeld. Philip's word-of-mouth reputation as the wisest of development economists and the most generous commenter on colleagues' work is richly deserved; he is the hidden co-author of many books, this one included (the usual disclaimers notwithstanding). Manfred has been the co-author with me of several papers and collaborator in many academic ventures over the past ten years, all of which have been drawn on heavily. Helpful comments and advice have also been received from many colleagues, including Christopher Colclough, Philip Daniel, David Evans, Raphael Kaplinsky, David Metcalf, Jerzy Osiatinski, Ennio Rodriguez, Hubert Schmitz, Dudley Seers, Hans Singer, Sheila Smith and Guy Standing. Thanks are also due to Boyd Gilman, for research assistance, and to Danielle Hodges and Beverley Harries, for processing the words.

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1 The Nature of the Problem: Concepts, Measures and Trends

THE ONSET OF GLOBAL UNEMPLOYMENT

When the International Labour office launched its ambitious World Employment Programme in 1969 it saw the problem primarily as one of unemployment and underemployment in less-developed countries. As the preface to one of its early pilot country missions put it:

unemployment has now become chronic and intractable in nearly every developing country. Whereas the industrial countries have mostly reduced open unemployment to about 3 to 6 per cent of their labour force, the comparable figure for other parts of the world is frequently over 10 per cent, and on top of this there is a range of other serious employment problems (ILO 1972: xi).

Since then the world has changed. The employment problems of the developing countries have not disappeared. They have, rather, been overlaid and potentially aggravated by the growth of unemployment in the industrialised countries to unprecedented post-war levels.

During the 1960s and the first three years of the 1970s, North America, Western Europe and Japan did indeed appear to have found the secret of full employment, with unemployment rates varying between 4 and 7 per cent in North America and rising no higher than 3 per cent in most European countries and in Japan. Table 1.1 shows how things have changed since then. The average unemployment rate in the member countries of the Organisation for Economic Cooperation and Development (which had stayed below 3 per cent during the 1960s) has climbed in the ten years since 1973 to almost 9 per cent, representing a total of 32.3 million people out of work. In some European economies (e.g. Belgium, Italy, the Netherlands and the UK) unemployment rates in 1983 were higher than or comparable with those at the

height of the world depression fifty years earlier. The rate for OECD Europe as a whole was over 10 per cent. Several non-European countries not covered by Table 1.1 also had unprecedentedly high unemployment rates in 1983, for instance Australia's 10 per cent and Canada's 12 per cent.

Table 1.1 Unemployment Rates, Selected OECD Countries

	<i>Percentage of total labour force</i>						
	<i>1933</i>	<i>1959-67</i>	<i>1973</i>	<i>1975</i>	<i>1980</i>	<i>1982</i>	<i>1983</i>
Belgium	10.6	2.4	2.9	5.1	9.0	18.1	14.5
Denmark	14.5	1.4	0.7	4.9	6.5	9.9	10.7
France	—	0.7	1.8	4.1	6.3	8.0	8.0
W. Germany	14.8	1.2	1.0	3.6	3.0	6.1	8.0
Ireland	—	4.6	5.6	6.4	6.1	10.7	13.8
Italy	5.9	6.2	4.9	5.8	7.4	8.9	9.7
Japan	—	1.4	1.2	1.9	2.0	2.4	2.6
Netherlands	9.7	0.9	2.3	3.9	4.7	11.4	13.7
UK	13.9	1.8	2.5	4.7	7.0	12.3	13.1
USA	20.5	5.3	4.9	8.3	7.0	9.5	9.5

Sources: Freeman, Clark and Soete (1982); OECD, *Labour Force Statistics, Quarterly Labour Statistics and Employment Outlook*, 1983 and 1984.

At the same time as the level of unemployment in OECD countries has risen its structure and composition has been changing. The number of people experiencing long-term unemployment (for twelve months or more) has increased, particularly in Europe, and the rise in unemployment among young people of 24 or less and among ethnic minorities has been disproportionately fast. Until 1979 female unemployment was rising faster than that of males; since then it has been the other way round and by 1982 there was very little difference between male and female unemployment rates in the seven major OECD countries. Information about unemployment rates and trends in the developing countries outside the OECD is, unfortunately, less detailed and comprehensive. Table 1.2 summarises the situation in the relatively small number of such countries for which regular information is available.

Table 1.2 Unemployment Rates in Selected Developing Countries

	Percentage of labour force					
	1965	1970	1975	1980	1981	1982
Africa:						
Egypt	1.9 ^a	2.4	2.5	5.2	—	—
Middle East:						
Syria	7.4	6.4	4.8	3.8 ^b	—	—
Asia:						
S. Korea	7.4	4.5	4.1	5.2	4.6	4.4
Philippines	8.2	6.0	4.4	4.8	5.1	5.3
Latin America and Caribbean:						
Argentina	5.3	4.8	2.3	2.3	4.5	5.7
Chile ^c	5.4	4.1	15.0	10.4	11.3	20.0
Colombia ^d	8.9	8.2	10.5	9.9	8.1	—
Panama	7.6	7.1	6.4	8.8 ^e	—	—
Peru ^f	—	4.7	4.9	7.0	6.8	7.0
Trinidad and Tobago	14.0	12.5	15.0	10.0	12.2	—
Uruguay ^g	7.2 ^h	7.5	8.1 ⁱ	7.3	6.6	—
Venezuela ^j	7.7 ^k	6.3	7.6 ^l	6.0	6.2	7.1

^a1964, ^b1979, ^cGran Santiago, ^dBogota, ^e1979, ^fLima Callao, ^gMontevideo, ^h1967, ⁱ1974, ^jurban, ^k1967, ^l1976.

Sources: Gregory (1980) and ILO, *Yearbooks of Labour Statistics*.

In general this table suggests that there has been no dramatic improvement in the employment situation in the third world to offset the deterioration in industrialised countries. Yet, at first sight, the table has some surprising features. Only in one case (Chile) has the unemployment rate increased in recent years on anything like the scale experienced by most of the OECD members covered by Table 1.1, and most developing countries now appear to have lower unemployment rates than most industrialised countries. Consider, for instance, the Philippines, a classic labour-surplus economy, which exports workers all over the world and where queues of job-seekers form outside cheap-labour factories in export-processing zones and domestic outworkers compete to produce garments at cutthroat rates. In 1982 its unemployment rate was 5.3 per cent, not only lower than those of the chronically sick men of Europe such as the UK, the Netherlands, Ireland and Belgium, but lower than those of all OECD member countries except Japan,

Norway, Sweden and Switzerland. To judge from Tables 1.1 and 1.2 Filipino job-seekers would have a better chance of getting a job at home than if they took their job search to the United States.

This impression is confirmed by the estimates of unemployment rates in the various developing regions of the world in 1980, based on a special ILO survey of 61 countries, shown in Table 1.3. Not only do the figures show little change from similar ILO estimates of five years earlier (when the average for Africa was put at 7.1 per cent, for Asia 3.9 per cent and for Latin America 5.1 per cent). They also compare relatively favourably with the 7.1 per cent unemployment rate in North America and that of 6.2 per cent in OECD Europe in the same year (see Table 1.1). Only the low-income countries of Africa and (to a lesser extent) of Latin America and the Caribbean appear, on this measure, to have had a worse employment problem than the industrialised countries in 1980. Since 1980 this contrast is likely to have become further accentuated.

Table 1.3 Open Unemployment: Developing regions, Percentage of Labour Force, 1980

<i>Group</i>	<i>Total</i>	<i>Male</i>	<i>Female</i>
All developing countries ^a	6.0	5.2	7.8
Latin America and Caribbean (low-income countries)	8.1	7.4	10.3
Latin America and Caribbean (middle-income countries)	5.6	7.8	8.4
India	4.6	3.3	7.3
Asia (other low income countries) ^a	4.5	2.3	10.2
Asia (middle-income countries) ^a	3.4	3.4	3.4
Africa and Middle East (low-income countries)	14.8	15.9	12.6
Africa and Middle East (middle-income countries)	7.7	4.7	8.7
Africa and Middle East (capital surplus oil producers)	5.4	6.1	4.0

^aExcluding China.

Source: ILO, *World Labour Report 1*, 1984.