THE PATH TO FULL EMPLOYMENT:
STRUCTURAL ADJUSTMENT FOR AN ACTIVE SOCIETY

Introduction

This Employment Outlook appears at a time when employment growth over the past year in the OECD area outside the United States as a whole has been at its strongest since 1973. This progress, which includes almost six million additional people in work in 1988, has helped fulfill the aspirations of many citizens of OECD countries to become economically and socially active.

Nevertheless, complacency is not warranted. Unemployment remains high — 7 1/2 per cent of the labour force in the OECD area as a whole — and a substantial proportion of job-seekers have been looking for work for over one year. Furthermore, even the relatively rapid growth in employment over the last two years has not brought the OECD as a whole anywhere near to full employment (see Chapter 1).

It is therefore important, when reviewing the trends in employment and the prospects for the future, to reflect on the types of policies and societal choices which facilitate a continuing brisk growth of employment. Current strong employment growth provides both the opportunity and a particular need to reactivate the long-term Unemployed. The opportunity arises because the current growth in employment comes at a time of increasing reports of skill shortages by employers. The need is to achieve sufficient versatility in those working or seeking work to meet these skill shortages.

This is not to suggest that the needs for experienced skilled labour can generally be met directly from the ranks of the long-term jobless. Rather, the opportunity both for further reductions in unemployment, and for meeting tomorrow's skill needs, lies in mastering a more extensive and complex chain of relationships. This involves an expansion of training activity and reorganisation of working practices, thereby generating the needed skills and consequentially creating vacancies in entry-level positions. These are the vacancies which the existing unemployed are most able to fill, the more so if employment services and employers together provide the necessary initial support.

Such a strategy is needed now in many countries to maintain recent employment growth. Current inflationary pressures are leading to a tightening of monetary policies in most OECD countries, and if structural constraints remain unchanged there would be risks of a reduction of the growth rate of output and of employment. Adaptive and flexible labour markets are crucial to overcoming such constraints. The environment in which change occurs is shaped importantly by governments, but employers (including, of course, public sector employers) and unions have a particular responsibility for this aspect of structural adjustment.

There are other important reasons too for expanding employment opportunities. Demographic developments — already occurring in Japan, and soon to affect Europe — will by 2020 increase appreciably the ratio of aged people to those of "working age". Unless retirement occurs later or the aged become wealthier, ensuring an adequate income for those who have retired could require an increasing flow of support from the economically active. However, even in those societies in which extensive transfers and consequently high tax levels are accepted, there is a perception that tax levels cannot readily be raised further. If support levels are not to be reduced, any extra burden on the transfer payments system will require a broadening of the tax base. There is thus both a clear private, and a clear public, interest in achieving a broadening of participation in employment.

The limits to post-war socio-economic performance

When full employment was adopted as a policy goal in the early post-war period, its meaning seemed self-evident: all those who wished to find employment at prevailing wage rates were to be able to do so. By offering all "breadwinners" the opportunity to support their families, full employment ensured that mass
poverty was largely eliminated. Full employment, and the economic growth associated with it, also formed the context in which the main programmes of social protection were developed and in turn greatly expanded. Health, education, and old-age pension schemes were progressively extended to cover entire populations, their structure being largely, albeit not entirely, framed on the basis of the traditional family and the close links of its single (usually male) earner with regular employment. Welfare payments supported those who were unable to work or were not part of a settled family.

Throughout the 1950s and 1960s, and indeed into the early 1970s, full employment, steady economic growth and the development of social programmes proved mutually reinforcing, and in social and labour market terms achieved considerable success. The health status of populations improved, the proportion of children proceeding to higher education increased significantly, and old-age poverty was largely eliminated. Further, the systems of both unemployment compensation and general welfare support which were in place by the early 1970s were to prove very important in the latter part of the 1970s, as well as in the 1980s, in softening the social impact of high unemployment.

This environment of relatively steady growth in per capita incomes led many OECD societies to aspire to offer all individuals the chance to escape dependency on others. However, over the last decade or so several developments have weakened some of the underpinnings of what had been a strong, but simple, and in some areas inflexible, structure of full employment, social protection and economic growth. The initial reaction in many countries as Unemployment rose was to offer income support in place of access to earned income, the hope being that the economic downturn would prove temporary, and that full employment would therefore soon be reattained. It was hoped that this support would prevent a lapse into dependence on the part of those dispensed from their jobs. However, full employment proved very difficult to reach in a number of countries, and hence the entitlement to support proved to have offered only a false independence. In many countries, inflation pressures appeared to require higher rates of unemployment to keep them in check. And there appeared also to have been a growth in structural unemployment: the number of unfilled vacancies rose in relation to the number of unemployed.

Thus policy-makers in many countries had to come to live for a period with rates of unemployment which nonetheless they regarded as unacceptable for the longer term. And perhaps even more importantly, unemployment has proved to be concentrated in particular groups (young people, older workers, the long-term unemployed), and in particular localities. Their weak links with employment-based entitlements and benefits has meant that they, together with other groups often outside the labour market — such as lone parents or discouraged workers — have experienced a form of "new poverty" in which they have become isolated both economically and socially.

Accompanying these changes have been changes in family structures and indeed in employment itself, changes which have tended to weaken the previously rather direct links between employment and social protection. In some cases the changes have had positive results: the growing number of two-earner families with fewer children has itself tended to strengthen households’ links with the labour market. Only a small minority of the unemployed are now husbands in families in which no one else is employed. And where both earners have continued in full employment, households have become relatively better off. On the other hand, the search for independence has also led to greater numbers of single-person (and thereby more vulnerable) households, and the diversity of employment patterns — part-time, intermittent, temporary — has not been matched by a corresponding diversity in entitlements to social protection.

Early responses to the setback to full employment

As it became recognised that unemployment was proving longer-lived than had been hoped, two main avenues of policy reaction were followed. One was to seek to ration the supply of labour more in line with the limited “stock” of jobs which were considered to be available. In other words, policy sought to achieve a lower unemployment rate by reducing the number of people who sought to find employment — by reducing or even reversing immigration flows; by encouraging earlier retirement; and (in some contexts) by discouraging women from entering the labour market. Sometimes, longer schooling was seen as a way of deferring youth unemployment, but not as a means of increasing the overall employability of young people — it being thought that, because there were not enough jobs, there was nothing that the schools could do to increase aggregate employment. A policy situated between the two was to seek to redistribute employment through work-sharing arrangements.

Such approaches have however come to be seen as a dead end. First, they have not generally been effective. The countries with the lowest unemployment rates are not those with the lowest school participation rates, but rather those with the highest (Chart 1.3).
Similarly, unemployment has fallen in many countries which have continued to accept substantial numbers of immigrants, while it has stalled, at a high level, in a number of countries with strong restrictions. Second, such policies run counter to social trends: women, in particular, are no longer willing to withdraw from the labour market whenever the supply of jobs appears to decline. And it is increasingly apparent that, over the longer term, demographic trends are in most countries going to make a continuing decline in the age of retirement inconsistent with the maintenance of adequate incomes for those who have retired.

A second policy approach was to create special jobs targeted at groups — either through direct public sector job creation or through the subsidisation of jobs in the private sector. Initially, such efforts were generally directed either at the reduction of unemployment through the creation of jobs (in the public sector) for the unemployed, or through the subsidisation of employers in the private sector to hire unemployed people. Such policies sought to "cheat the Phillips curve" by confining such direct employment creation to those least likely to be in demand by employers in the open labour market. Such policies were thus the counterpart — on the demand side — of "supply control" policies.

This approach progressively became recognised as not very satisfactory, however, particularly in the case of "special" public sector job creation. To the extent that such policies improved the employment prospects of those "officially" unemployed, they encouraged those not in employment to classify themselves as unemployed, and hence did not succeed in "confining" the labour market. Much effort often was put into ensuring that the "special" jobs were additional to — and hence in general separate from — normal recruitment. But this in turn often meant these jobs did not represent a particularly satisfactory path into the normal labour market. Hence, direct employment creation did not necessarily enhance the employment prospects of participants, and neither did it substantially reduce long-term unemployment. To the limited extent that it may have done so, this was often achieved by reallocating jobs away from other entrants into the labour market, many of whom thereby entered the pool of unemployment in place of those who escaped through participation in special programmes — the phenomenon of "churning". In recent years, a number of countries — among them Australia, Canada, New Zealand, the United Kingdom, and Sweden (for youth) — have for this reason significantly reduced their expenditure on direct job creation, while at the same time increasing expenditure on labour force training opportunities.

Proposals to reduce unemployment through reductions in working time straddled these two approaches. Working-time reductions which are imposed without a counterpart slowing in the rate of increase of hourly earnings increase labour costs, and hence are unlikely to increase the number of jobs available. Even if hourly labour costs do not rise, a reduction of working time is unlikely to translate into the equivalent number of full-time positions, it being relatively easy for firms to adjust through increases in overtime working. If extra jobs are to result from working-time reductions, many of them would almost certainly have to be "non-standard", and many of those who take them would be new entrants into the labour force. Some recently-negotiated agreements on reduction of working time, such as those in the German metal industry, have recognised this, in part, by the agreed linking of reduction in standard working hours to increased flexibility in workplace procedures.

The trend towards more "active" societies

In response to these policy questions, the last five years or so have seen a new, and in a number of ways more sophisticated, policy approach in a number of OECD countries. This approach welcomes — rather than resists — the entry of new groups into the labour market. It recognises the demand for participation in economic and social life which is increasingly voiced by most groups in the population, and does not seek to resist the expression of this demand through a growth in aggregate labour force participation. Instead, the underlying goal is to enhance the effective productivity of the population as a whole by drawing on previously-unused talents, and harnessing them in a more effective and comprehensive division of labour. Such structural reforms have the same potential for increasing productivity as do improvements in the productivity of technical equipment. If they are implemented in a manner which is responsive to technological and market developments, and are combined with other reforms which reduce structurally-induced inefficiencies, output and productivity can improve and inflation can be contained, leading to higher employment and real income: the micro-economic impact of a more productive population becomes validated at the macro-economic level.

This implies that the statistical distinction between those currently in the labour force and those who would like to be is increasingly a poor guide for policymaking. Hence, the goal becomes both to welcome into active life all those who wish to take part, and to enable them to do so. The aim thus is not to "define away" unemployment by assigning those seeking work to some other status, but rather to recognise that
realisation of the full human potential of the population involves the employment not only of the unemployed, but of all those who wish to participate — whether working full-time, part-time, or in casual employment.

Obstacles to participation in economic life clearly need to be broken down if this goal is to be attained. One avenue being pursued is the removal of institutional impediments to other "non-standard" forms of labour force participation, such as part-time work, week-end work, self-employment and home work, either through the removal of regulatory constraints (as in the United States and the United Kingdom) or through the renegotiation of collectively-bargained constraints. A policy choice has to be made here: the removal of such impediments may lead to some activities being performed in these ways rather than in "regular" full-time jobs. The "permanent" job as an entitlement to a secure income in return for performing the same unchanging tasks is increasingly inappropriate in societies which seek to mobilise their full talents in response to evolving technologies and markets.

This point does not mean, however, that the quantity of regular full-time employment has been declining or will do so; a more productive economy calls forth new demands for labour, and some of this is full-time. The process proceeds turbulently — of the stock of jobs at any point in time, at least one in ten was created over the past year, and at least one in ten will disappear during the forthcoming year (see Chapter 4, 1987 Employment Outlook). This means that adequate training and other mobility-enhancing facilities will in general be necessary if some of these displaced from full-time jobs are not to be permanently sidelined from the mainstream of employment. To avoid this, it becomes necessary, perhaps increasingly so, to develop avenues of mobility between "non-standard" forms of participation and full-time regular jobs. Increasingly, and helpfully, market mechanisms are generating such avenues — for example, temporary employment agencies in the United Kingdom have been finding it necessary to offer training facilities and employment continuity to attract able recruits and to offer employers the expertise they require. Just as much adaptability is likely to be needed on the part of those who continue to be employed full-time. They will continually be challenged to upgrade their qualifications, and will often find their working lives change even if they remain employed with the same enterprise.

In the fight against chronic unemployment, this new policy strand is refocusing attention. Income-support payments to the unemployed are generally less than even minimum wages in full-time work, particularly for those for whom earnings-related insurance benefits have expired. Providing training opportunities which occupy the unemployed full-time can require considerable additional expenditure — not only for direct wage costs but also for the ancillary costs of providing structured training — even if that training includes participation in productive work.

There have recently been a number of initiatives which have sought to escape from the constraints which these additional expenditure requirements can imply, and to move to a more sophisticated analysis of the net overall benefits from active labour market programmes. Many income-support schemes which are conditional on job search by recipients proved unable to be adequately controlled during the (long) periods during which vacancies were considerably outnumbered by job-seekers. Thus, making income-support recipients eligible for continued support if they undertake activities to improve their readiness for the labour market can actually lead to a reduction in the total cost of the support — even if the "active" programmes are more expensive per participant than is passive support. Successfully integrating those not in employment into the labour market will always involve some displacement of those already in employment. However, unless displacement is near total, the social rate of return from reintegration should quickly repay the investment implied by the difference between the cost of income support and that of more active measures.

A number of countries have recently introduced initiatives which reflect such thinking. In those countries in which unemployment benefits were previously available to teenagers on the same basis as to adults — for example Australia, New Zealand, Sweden and the United Kingdom — income support for teenagers is now conditional on participation in some form of training and/or part-time employment. Unemployment benefit systems for adults are being revised to emphasize active measures in Sweden, Australia and Canada. The recent welfare reform in the United States has attempted to eliminate those features of the income-support system which discouraged labour force participation by lone parents. And France's new minimum income scheme (revenu minimum d'insertion) is designed to link in with measures for reintegration into society.

Such approaches are requiring a diversion of resources from merely maintaining the incomes of those who are unemployed, disabled or lone parents to finding ways in which they can participate in economic life. In such reform programmes, the goal is to find other guided forms of training and employment which will preserve income-security entitlements while encouraging actual labour force participation.
If this involves an extension of part-time employment, it is generally not in the context of "sharing out" existing full-time posts, but rather of using the resources currently devoted to passive income maintenance to create additional employment opportunities which would be structured, so as to reintegrate participants into working life.

Thus it would be a fundamental mistake to identify the role of policy purely in terms of "programmes" entitling particular classes of individuals to particular forms of income support or other assistance. Such measures have an important place, but will be effective only if they operate in the context of an entrepreneurial and innovative community climate. Community initiatives which foster such a climate — the focus for example of the OECD's Initiatives for Local Employment Creation (ILE) programme — are therefore essential complements to such targeted measures. Schemes which encourage the unemployed to create their own business or become independent workers, which now exist in one form or another in most OECD countries, combine the benefits of both approaches, being both targeted on the unemployed and aimed at replacing dependency by enterprise.

The education system and the labour market

Educational structures have also been influenced by these trends. As labour market participation has increased in variety and extent, it has become progressively more clear that there is no contradiction between the broad social and cultural objectives of education and training for labour force participation. Fears that training for the world of work requires making classrooms extensions of factories have been calmed by the growing realisation that methods of work organisation which incorporate continual learning are also more productive. Humane and co-operative schooling methods seem to be the best preparation for adult life both in the workplace and outside it.

The recent general revival of interest in the links between the education system and labour market outcomes reflects those concerns. It has become apparent that if all citizens are to be adequately prepared for active life, educational arrangements need to cater for the needs of all, and not just the most talented. These concerns underlie the "quality of education" debate about the basic skill attainments of schoolchildren which have emerged in most countries in recent years. There is, however, a danger that laying down standards without also instituting measures which enable the disadvantaged to achieve them, might identify the talented more efficiently but not improve overall attainment. The tragic result could easily be the persistence of a pool of unemployed young people simultaneously with high demand for young labour market entrants whom the system has identified as talented.

Many of the cultural and intellectual achievements of all societies have been accomplished by elites, and there is an understandable tendency for education systems to orient themselves to the selection of those best fitted to preserving and developing those accomplishments. The challenge for educational curricula and structures is to find mechanisms by which such achievements can be enhanced by a process other than one of exclusion.

Towards a more active society

Although the attention of economists and economic policy-makers has been directed mainly to the enlargement of opportunities for greater participation in labour market activity, there are also other ways in which people can participate actively in society. In particular, those who have retired — often before the age of 65 — frequently have little wish to re-enter the labour market, but equally are unwilling to withdraw completely from community life. There is in all communities a spirit of generosity and co-operation which is institutionalised in welfare systems, but which is also evident in voluntary co-operation and mutual assistance. Further education and community service organisations which cater for these desires clearly add to the range of choices available in the community, and complement and enhance participation in the formal labour market. The role of public policy through social provisions then becomes one of removing obstacles to individual activity (such as unduly restrictive age retirement rules) and of ensuring that individuals have the skills to make such activities personally and/or economically rewarding. Policies which do so include the removal of incentives to early retirement, the revision of tax structures and child allowance provisions to remove any discouragement of participation by married women, and the broadening of child-care provisions.

Many of the analytic topics addressed in this issue of the Employment Outlook point to ways in which specific groups of citizens can be enabled to be more active. The discussion of educational attainment ("Chapter 2) shows starkly that those with only a basic education are increasingly less likely to establish themselves in modern labour markets — hence the need for an education system which ensures widespread competence. Regional labour markets (Chapter 3) are as susceptible as are national ones to isolating the immobile or the less educated from opportunities. The coexistence of regions of high unemployment with other regions in which labour and housing markets are over-heated suggests that
rigidities in relative wage structures and in housing markets can be as harmful in inhibiting opportunities for participation within countries as are inappropriate relative aggregate wage levels and trade barriers between countries. Compensation to the injured (discussed in Chapter 4), however generous, is a poor substitute for adequate measures for the prevention of occupational accidents, and can directly inhibit reintegration if compensation is conditional on inactivity. Hence, measures which encourage the re-entry of retired or injured workers (as is the case with the recent invalidity pension reforms in Sweden) are an important complement to accident prevention.

The examination of the characteristics of growing and declining industries (Chapter 5) points to further issues. The strong relationship between educational attainment and relative growth by industry indicates the importance of the educational infrastructure in enabling employment expansion. The tendency for women to enter declining industries, by contrast, may suggest that barriers to entry for women need to be re-examined if they are to participate fully in careers in expanding areas. And the importance of temporary employment in growing industries suggests that this form of labour market flexibility makes a significant contribution to the enhancement of overall employment growth.

Concluding observations

These is clearly a type of “full employment” which OECD countries have rejected, and which also is being abandoned elsewhere. This pretended to offer guaranteed employment to all, maintaining jobs even when they had ceased to respond to technological requirements or consumer preferences. This type of policy has proved fundamentally inconsistent with economic progress.

The alternative to this policy is not to confine economic activity to a narrowing number of increasingly productive employees, and making the resultant unemployment tolerable through income transfers from the active to the inactive. Rather, it is to base policy on the recognition that it is workers and their talents, and not just physical hardware or the accumulated software of organisational arrangements, which constitute the driving force of societies. A more productive population — one which develops in new ways its inherent talents and the potential which schooling has provided — can help to improve the real resources available, in the process adding to the level of output which can be derived from existing physical capital. The resulting higher real incomes can lead in a virtuous circle to higher incomes, higher employment and faster social progress.