Growth and Employment in Europe and North America
European and American Perspectives

Edited by John Van Oudenaren
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Preface

Despite the economic upturn in Europe and the United States, unemployment remains a major concern to policymakers on both sides of the Atlantic. The OECD forecasts that by the year 2000 Europe still will have an unemployment rate of 10.5 percent. The outlook for the United States is better, but concerns about the quality of jobs and the phenomenon of the working poor in America offset to some extent the positive record of overall job creation.

In the past year political leaders have emphasized, to a degree unprecedented in the postwar period, the importance of unemployment as an international as well as a national economic and political issue. The European Commission’s white paper, Growth, Competitiveness, Employment, the March 1994 seven-nation jobs ministerial in Detroit, the bilateral report on employment and competitiveness problems in France and Germany discussed by President Mitterrand and Chancellor Kohl at Mulhouse in May, and the strategy for employment agreed upon at the OECD ministerial meeting in June all stressed both national and international aspects of the unemployment challenge.

Against this background, the United States Mission to the European Union and the Commission of the European Communities asked the RAND European-American Center for Policy Analysis (EAC) and the German Institute for Economic Research (DIW) to organize an international conference on the theme “Growth and Employment in Europe and North America: European and American Perspectives.”

The conference took place on April 21–23, 1994, at Corsendonk Priory, Oud Turnhout, Belgium, and brought together over seventy policymakers, business and trade union representatives, journalists, and members of the academic and research communities for an in-depth discussion of current economic conditions in Europe and North America, of the underlying causes of the unemployment problem, and of desired policy responses at international, national, and local levels. These proceedings document the highlights of the discussion.

The European-American Center for Policy Analysis is located in Delft, The Netherlands, and is dedicated to research and education on important policy issues facing Europe and North America in the post-Cold War era, and to fostering cooperation between European and American scholars and policy analysts. Those wishing more information about the EAC are urged to contact
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Introduction to the Conference:
Speech of Ambassador Stuart E. Eizenstat,
U.S. Representative to the European Union,
to the Conference on Growth and Employment
in Europe and North America,
April 21, 1994

Welcome to you all. I want to thank RAND, the Commission of the European Communities, and the German Institute for Economic Research, as well as USIS, for their sponsorship of this conference. Special thanks are due to Steve Dubrow of our U.S. EC Mission and to John Van Oudenaren, Director of the European-American Center for Policy Analysis, who put so much work into making this conference possible.

One of the greatest challenges facing the European Union and the United States today is generating the economic growth and removing the structural impediments needed to eradicate the scourge of unemployment. For a scourge it is. Unemployment tears at the fabric of our society. It creates insecurity. It disrupts families. It can lead to crime. It means wasted talents. It means wasted lives.

That unemployment is a problem is incontestable. In the United States, although more than 4 million jobs have been created since the Clinton Administration began, more than 8 million people who want to find work cannot find it. This represents about 6.5% of our civilian work force. While this may be close to “full” employment in our economy, individual groups remain hard-hit, including American blacks, with an average unemployment rate of 12.5%; black teenagers face a staggering unemployment rate nearing 40%.

In the European Union, the unemployment toll is even more disturbing. The overall unemployment rate is 10.9%. Some 18 million people are out of work. That’s equivalent to the combined populations of Belgium, Ireland, and Denmark. In Spain, nearly one person in every four is unemployed, while in Italy, Denmark, and the UK, unemployment exceeds 10%; Belgium—with 9.9% unemployed—is just behind. In Europe, the young are disproportionately affected: in France, 23.1% of the unemployed in 1992 were between the ages of 18 and 25; in the UK the share was 29.6%; and in Italy, more than 47%! Long-
term unemployment is a particular problem in Europe, with more than half the
unemployed having been out of work for a year, in contrast to little more than
6% in the United States and 19% in Japan.

The countries of the EU are simply not creating enough jobs. Since 1973,
employment within the EU has only increased by 8%, compared to 23% in Japan,
and 42% in the United States. Virtually all this increase has been in the public
rather than in the private sector; in France, not one single net new job has been
created in the private sector in the past 20 years. During the same period, the
total number of jobless in the EU has nearly quadrupled. Unemployment has
ratcheted up in Europe over the last several business cycles, increasing
significantly during recession periods and declining only slightly during
recoveries. The lowest average unemployment rate for the past decade in the EU
is 8%.

As Labor Commissioner [Padraic] Flynn said in a recent speech, the direct
budgetary costs of this unemployment are staggering: across the whole of
Europe, the bill was more than 200 billion ECUs, or the equivalent of the GDP of
Belgium. This is clearly unsustainable. President Clinton called the leaders of
the EU and the largest industrialized countries together for a Jobs Summit in
Detroit in March largely because of the enormity of this challenge. He believes
the United States, Europe, and Japan have much to learn from one another about
how to deal with the scourge of unemployment. Indeed, this will also be one of
the central themes of the G-7 Summit that will be held in Naples in July.

Yet, in our conference, where we are attempting to share lessons we have
learned, it is of prime importance for Europeans to understand fully the
American economic performance since 1980, for it has been more uneven than is
generally appreciated. In 1982, the United States suffered the effects of high
inflation and double-digit interest rates occasioned by the oil shock of 1979–80,
excessive fiscal stimulation, and exceedingly slow productivity growth. The
United States had an unemployment rate of 9.7%—not too different from what
Europe bears today. With Draconian monetary policy combined with a
traditional Keynesian fiscal stimulus of tax cuts and defense spending increases,
inflation and interest rates fell. GDP growth averaged 3.7% in 1983 to 1990, and
employment rose by 18.3 million to 107.4 million. But in 1989 to 1992, economic
growth averaged only an anemic 1.1%, and almost no net new jobs were created.
Unemployment jumped from 5.3% to 7.4%. This proved the undoing of the Bush
Administration. Under President Clinton, job growth has resumed, as civilian
employment has grown nearly 4 million since January 1993. This represents an
average of about 280,000 per month since the President's inauguration (versus
80,000 in 1992) and 400,000 per month over the past half-year.
Some of the explanation for the greater job growth per unit of GDP in the United States over the EU has been lower rates of productivity in the United States in the 1980s, hardly a desirable factor in the long run. In recent months, however, U.S. productivity has improved markedly, largely as a result of the restructuring of American firms, jumping 3.3% in the third quarter of 1993 and 6.9% in the fourth.

The purpose of this conference today is to contribute to the response our nations are formulating to meet our challenges. It is a direct follow-on to the Detroit Jobs Summit, and I hope will feed ideas and thoughts into the Naples Summit meeting.

Adapting to Change

The central theme in President Clinton's speech to the Detroit Jobs Conference was change. I would like to echo this theme. As the saying goes, the only constant is change. Change will always be with us. Indeed, growth means change. As the President said, "There will always be restructurings; there will always be job loss. The best government policies, the best business practices, cannot stop these changes."

All too often, however, governments do try to forestall change, to prevent the hardship that must come to some. This is an understandable endeavor. But in fact such policies often make change more difficult, dislocations more intense.

The role of government is not to try to stop change, but to improve the ability of our people to adapt to it.

We need to promote growth. We must reduce the rigidities that inhibit the ability of our labor markets to adapt. And we have to convince our people that change can work for them if they embrace it and are prepared to meet it head-on.

Types of Unemployment

Given the role of this conference, it might also be useful for me to take a page or two out of the "theme paper" which the United States distributed prior to the meeting in Detroit. Some of you may have seen this paper; a few of you may have read it. But the purpose of the paper was to provoke debate, which I would like to do today as well.

We all know there are different types of unemployment. There is "frictional" unemployment—people who have just lost, or perhaps just left, one job and are
looking for—and will likely find—another. This is common to every economy at every time. In contrast, there’s “structural” unemployment—those who cannot find jobs because they lack the skills in demand where they live. A third type of unemployment, sometimes referred to as “classical” unemployment, comes when policy and regulatory impediments distort prices and costs and erode flexibility, such that workers cost more than employers are willing to pay. Finally, there’s cyclical unemployment, those who have lost jobs because of a general downturn in the economy. If it lasts too long, cyclical unemployment can take on characteristics of structural or “classical” unemployment, as those without jobs lose their skills or are deemed unemployable, or lose the ability to command wages that exceed the unemployment benefits they receive.

Obviously, different types of unemployment require different policy responses. Job placement and informational programs can reduce the difficulties of finding a new job, thereby reducing frictional unemployment. Training programs and relocation assistance help attack structural unemployment. “Classical” unemployment can only be reduced if real labor costs grow more slowly than productivity. And cyclical unemployment can only be addressed through monetary and fiscal policies.

Studies by OECD and the EU indicate that structural and classical problems are a significant cause of the EU’s unemployment crisis. There are some estimates that structural and “classical” unemployment account for over 40% of total unemployment, through a combination of high non-wage labor costs, generous and lengthy unemployment benefits, and other labor market rigidities.

**Generating Growth**

It is clear that a portion of our current unemployment problem is cyclical. In the United States, for instance, non-farm payroll employment grew about 3.8 million between the end of the recession during the first quarter of 1991 and the end of 1993, with 2.5 million new jobs coming in 1993 alone. As a negative contrast, nearly two and a half million jobs were lost last year, Europe’s worst recession since 1975.

As such, one of the most immediate things our governments must do to address the problem of unemployment is to adopt the appropriate policies needed to generate economic growth.

Such policies are important not only to address the issue of cyclical unemployment. We can most effectively garner public support for reforming labor markets and reducing regulatory barriers, and for trying to eliminate
structural and frictional unemployment in the context of visible growth. Our people need to know that if they do make the required adjustments and acquire the needed skills, they will be able to find a good job at the end of that process. As CEA [Council of Economic Advisers] Chair [Laura] Tyson has said, it is as unproductive to train workers for jobs that do not exist as it is to try to create jobs when workers lack the skills to do them. Countries which pursue structural improvements without taking steps to increase aggregate demand will see little or no return to their efforts.

The EU will have to grow an average of at least 3% annually over the next several years to pull unemployment down by even a few percentage points.

In the United States, we are doing our part to stimulate growth. One lesson we have learned is that the "old time religion" remains critical: there is no substitute for sound fiscal and monetary policies to create an environment for economic growth and for growth in jobs creation. For years, countries have been asking us to reduce our budget deficit. While significant overbuilding of commercial real estate and the painful adjustment to lower rates of defense spending certainly played their part, the sluggish growth rates of the Bush Administration came primarily because the debt binge of the Reagan era finally caught up with the country. Persistent triple-digit budget deficits in the 1980s more than tripled the national debt in the decade. It took 200 years for the United States to reach its first trillion in debt but only ten years to increase it to $4.1 trillion in 1992. The deficit as a percent of GDP went from 2.8% in 1980 to 4.9% in 1992. As public deficits rose, the national savings rate, out of which private investments could be financed, dropped to a pathetic level of 3% of GDP. Long-term interest rates rose to double the level of inflation. The United States sucked in savings from abroad, leading to a rise in the value of the dollar, a deterioration of our trade balance, and cries for protectionism at home.

We have begun addressing these problems. President Clinton’s bold economic program passed with great difficulty last summer. It will reduce the deficit by about $500 billion over 5 years and lower the deficit to 2.7% of GDP by 1997. We now have a deficit that is smaller as a percentage of our GDP than all the G-7 save Japan. And if Congress adopts the President’s new budget, as it seems likely to do, we will have three years of reduction in our deficit for the first time since Harry Truman was president. These efforts have provided confidence in the Administration’s economic approach and helped create the environment needed to support the investment surge which continues to power the U.S. economy.
On this side of the Atlantic, fiscal policy is constrained in much the same way as it had been in the United States. Budget deficits of the member states are in many instances at all-time highs. For the EU as a whole, the general government net borrowing requirement reached 6% of GDP in 1993, with seven countries registering considerable increases in their deficits. This slippage led to sharply rising debt/GDP ratios: the debt ratio is now just under two-thirds of GDP. The cost of servicing this mountain of debt accounts for more than 11% of total public expenditure and around 5.5% of GDP. The recently adopted Broad Economic Policy Guidelines of the EU thus correctly note the extremely limited "room for maneuver" in fiscal policy; in many instances, consolidation is needed instead. It should be noted, however, that with the public sector accounting for more than 51% of EU GDP, an abrupt cutback in expenditures or increase in taxes may have a noticeable, and negative, effect on aggregate demand.

The Commission's forecast for 1994 and 1995 indicates that a cyclical recovery in the economy is under way. The recovery is being driven predominantly by exports as the international economic climate improves. This surge, the Commission believes, will lead to a 5% increase in investment, compared with last year's decline. Consumer spending is expected to pick up a bit more slowly. The Commission notes that both consumption and investment could increase faster than expected, but the forecast also contains a cautionary note. Current high unemployment could have a depressing effect on people's willingness to spend. Investment may not be as forthcoming as anticipated in the face of low-capacity utilization rates. And, on the external side, a recent issue of Morgan Guaranty's *World Financial Markets* points out that Europe may not benefit as much as hoped for from increases in global demand for imports. The study notes that OECD countries are capturing annually about 50% of the increase in U.S. imports, rather than their historical 75% share; developing countries in Latin America and Asia are now winning a greater share. Further, the improvement in the relative competitive position of U.S. business has led to a sharp rise in the U.S. share of OECD exports. Both trends have notably been at the expense of Japan and Germany.

**Reducing Rigidities**

A second lesson is to reduce direct impediments to job growth—from inflexible regulations which make it difficult to hire anyone on a part-time basis to very high unemployment insurance payments paid over an extended period, from steep non-wage labor costs to limited labor market flexibility.
While Europe may recover and have modestly higher growth next year, all recognize this will not suffice to address unemployment that is caused by structural barriers to job creation and labor force participation.

In many respects, non-cyclical unemployment is more of a problem in Europe than in the United States. One illustration of this: in 1970, the average unemployment rate in the G-7 countries was 4.3%—3.9% in the four European G-7 countries. In 1993, the average was 8.3%, but 9.4% among the four European countries. In the three continental European G-7 countries in particular, unemployment has risen steadily since the first oil shock, with only a slight retreat during the recovery of the late 1980s; now those rates are at or near all-time highs.

According to a recent OECD study, a large part of the unemployment problem in Europe has been caused by a failure to create jobs in the private sector. Between 1970 and 1992, the European Union created 3 million new private sector jobs compared with 7 million in the public sector. Indeed, across the European Union, nearly one-fifth of the workers are employed in the public sector, not counting the millions more in state enterprises. In the same 22 years, the United States created 32.8 million new private sector jobs and only 6 million in the public sector. Moreover, in Europe, labor force participation fell, reflecting a lack of job opportunities, while it rose in the United States.

Many experts believe the failure of the private sector in Europe to create jobs is due to a “classical” problem in the labor markets—that is, that the price European labor demands for its services is too high, while the wage employers can afford to pay is too low given the price sought.

One of the factors affecting the price that workers seek is the alternative income streams associated with not working. And in Europe, these alternative streams are quite high. In Germany, for example, under the recent wage package, unemployed workers with children receive 67% of their last after-tax wage; childless couples and singles receive 60%. These benefits last a year. After that, unemployment assistance is available, a means-tested benefit that offers as much as 57% of the last wage for those with children and 52% to those without. These benefits can last up to 35 months, and other generous welfare benefits can follow. In addition, the unemployed (along with all other Germans) receive child subsidies (“kindergeld”) and can benefit from rent and transportation subsidies. In the United States, in contrast, unemployment insurance, averaging about 50% of the previous earnings, generally expires after 27 weeks.

One aspect of the size of these benefits in Europe, it should be noted, is that they are one of the constraints against additional fiscal stimulus in Europe: the
member states spend on average more than 22% of GDP on social protection plans; in the United States, we spend about 14.6%.

There is a clear trade-off in EU countries between maintaining current compensation and social benefit levels (for both the employed and the unemployed) and long-term job creation and growth. European benefits systems have done a good job of protecting the wages of those who are employed. According to The Economist, Richard Freeman, a Harvard professor and director of the labor economics program at the National Bureau of Economic Research, showed in a recent study that Europeans in the lowest 10% of wage earners garner about 68% of the median European pay; in the United States, the average is 38%. On the other hand, roughly half the unemployed in the United States can find work within a month; only 5% of Europeans do.

On the side of the employers, the costs associated with hiring workers are also relatively high. Again using Germany as an example, according to the World Financial Markets analysis, real labor costs per employee have risen 58% since 1970, compared with only 11% in the United States. The rate of increase for the EU as a whole has been even higher. Thus, wage costs in the EU average nearly 15% higher than those in the United States and 20% higher than those in Japan. This translates into lower business profits and higher unemployment.

Non-wage labor costs have been the main factor behind the rise in the real cost of labor in Germany. Non-wage labor costs in the manufacturing sector have increased from around 50% of the wage per employee in 1970 to nearly 85% today. This latter includes 26% of pay going to the employer’s social security contribution; another 26% goes to support holiday and vacation pay. The equivalent of another 35% of the salary an employee receives must go to cover bonuses, including the “13th month” salary, pensions, sick-leave, and other benefits. In contrast, non-wage labor costs account for less than 40% of the wage per employee in the United States.

The rise in social security contributions in Germany in turn is influenced by higher unemployment, as fewer people at work must shoulder the costs for more unemployed, thus creating a vicious circle of rising labor costs and unemployment.

Other rigidities exist in the European employment system as well. Limitations on store hours constrain employment in the retail trade sector, one of the largest areas of job growth in the United States. Social security and other benefit systems in Europe are generally designed on the assumption of full-time employment. As a result, individuals find it difficult to move from unemployment into anything less than full-time employment because of the
steep reduction in benefits. This makes it more difficult to create part-time and other “atypical” forms of employment. Stringent rules related to severance make it more costly to hire, as well as to fire.

Labor market flexibility in dynamic growing economies invariably results in a process of “creative destruction,” whereby many jobs are created even as others become redundant. The number of jobs created and destroyed each year in the United States is incredible. According to the Economic Report of the President, data from various sources suggest that more than 10% of all jobs disappear every year, while even more new jobs are created. Not every job that is lost forces someone to become unemployed, as normal attrition plays a role.

As the European Commission’s white paper—the Delors paper—and other analyses have pointed out, constraints on the labor markets in Europe need to be addressed. The costs of employing people can be reduced, as many in the Commission and the member states have argued. At the very least, increases in real incomes must be less than increases in productivity. The longer it takes to regain equilibrium in the cost structure of the labor market, the longer at least a portion of the European unemployment problem will persist.

The importance of changes in the geographic distribution of jobs, even within a single economy, should not be under-emphasized. Certain regions, because of their location or resource endowment, may become relatively specialized in certain industries. Technology, relative prices, institutional arrangements, demographic changes, resource exhaustion, or myriads of other factors can then weaken the industry, with spillover effects on the entire region. In order to find work, people are forced to move.

This happens all the time. In both Europe and the United States, people have left farms for the cities, have left the south for the industrial north. Many people who emigrated from Texas to California are now on their way home.

Labor mobility is difficult to foster in Europe because of language and other cultural barriers between and among countries. Western European households move between regions at about one-third the rate of those in the United States and Japan. But even these barriers are weakening as the Single Market becomes reality and the younger generation establishes a more truly European identity. Government’s role must be to ensure that its policies do not get in the way of such movement. Pension and social security plans, for instance, might be made more easily portable.
A Third Lesson Is that Free Trade Creates Growth

As President Clinton remarked in Detroit, "There is no rich country on earth that can expand its own jobs base and its incomes unless there is global economic growth." This belief is one of the reasons President Clinton fought so hard for the ratification of the North American Free Trade Agreement and to bring the Uruguay Round to a successful conclusion.

The signing of the Uruguay Round agreements in Marrakesh less than two weeks ago will be a key stimulant to job creation in the United States, Europe, and elsewhere. Indeed, the GATT Secretariat has just released a study showing that the accords will add more than $755 billion to world trade by the year 2005, and more than $235 billion to global economic income.

During the NAFTA debate, working people in America indicated their concern—legitimate concern—that they were vulnerable to changes in the economy stemming from free trade with Mexico and Canada. They felt such changes would not benefit them. On the other hand, economic studies show shifting trade patterns and globalization have played only a modest role in producing the unemployment crisis. Further, the open economy benefits our workers: in the United States, we have found that export-related jobs pay on average 22% more than jobs having nothing to do with the global economy.

The answer to economic problems is not protectionism, but the opposite. Protectionism is a perfect example of the attempt to prevent change—with all the negative consequences that ultimately entails. Growth in incomes in other countries can help our economies expand, and help us create jobs. This is clear in the case of NAFTA, where renewed growth and optimism in Mexico have buoyed U.S. exports. And it has been, and will be, the case in the EU's trade with Eastern Europe, where free trade will help all European workers. This is one reason the United States has pressed the EU to go beyond its impressive efforts to lower trade barriers to the East by phasing out all restrictions on all "sensitive" sectors over a specified period of time, as the United States did in NAFTA for Mexican and Canadian products.

A Fourth Lesson Is the Importance of Promoting Technological Change

Helping our workers adapt to change, and especially changes in the demand for skills that technological development brings, is one of the key ways in which we can address the structural employment problems facing our economies.
As is the case with protectionism, people are often frightened by technology and the change it brings. They fear new machines and new techniques will make them “redundant” and make it impossible for them to find and keep well-paying jobs.

We need to convince our people that this need not be so. We have to make them believe that new technology increases productivity, and that, as President Clinton said in Detroit, “Productivity can be a source of gain, not pain.”

The president went on to relate how, when he was a boy, productivity on the farm meant people lost jobs on the farm. But productivity in the industrializing mid-west, in Detroit, meant that more jobs were being created in the automobile industry than were lost on the farm. Throughout the 20th century, he recalled, while productivity in one area meant that fewer people could do work in that area, technological changes were creating more jobs in other areas.

As the U.S. “theme paper” to the Jobs Conference points out, technological change creates new jobs that are different from existing ones. New technologies can devalue some skills, causing adverse effects on some workers. But new inventions, new production techniques and processes, and new ways of organizing production create new opportunities as well. Technology can thus be “jobs enabling”; when it is used to improve competitiveness, it is “jobs creating.”

This process is clearly happening now. The revolution in digital technology is transforming our economies. The integration of computing and information networks into the economy is making manufacturing more productive and flexible. The same technologies are leading services sectors—from airlines to finance to retailing—to increase productivity and expand.

Technology is also changing the very nature of the firm by reducing dramatically the need for management hierarchies. Companies can more easily use partnerships, alliances, and other market relationships as substitutes for vertical integration. The result has been a wave of private sector restructurings in all advanced nations as companies reconfigure in response to new technological opportunities.

Growing firms with high expected profits clearly make good use of technology investments as they expand. A recent sampling by the U.S. Census Bureau of nearly 9,000 manufacturing plants in existence between 1982 and 1988 showed that employment in small companies that invested heavily in technology grew at an astonishing rate of 218% between 1982 and 1987, while employment jumped 54% during that period in slightly larger firms with high intensity technology use and 35% in similarly technology-intensive mid-sized firms. During this period,
although all large firms were shedding jobs, firms investing in new technologies were retaining far more of their employees.

Yet, the countries of the EU invest significantly less in R&D than the United States or Japan—about $300 per capita compared to $400 per capita in Japan and $500 in the United States. Patents are also lagging in the EU. In the process, the EU region has moved from a large surplus in high-tech trade to a deficit.

One role governments must play, then, is to foster technological change so it can create new and better-paying jobs, not attempt to control it. Governments have a role in promoting basic scientific and technical research, especially in areas where activities would otherwise not have been performed. These might include areas beyond the time-frame of the private sector, or in other “social mission” areas such as the environment or public health.

Governments can also help establish infrastructure to reinforce the cycle of technology, innovation, and entrepreneurship. The most important example is broad-band digital networks that support advanced networked communications and computing—the so-called information highways. Governments can facilitate private-sector construction of such networks by a sensible policy of deregulation in the telecommunications sector and by assuring shared technical standards and protocols.

Fifth, It Is Essential that Government Help Workers Adapt to Technological Change

The implications of the incorporation of these technologies into the economy are profound. Computerized production requires greater worker involvement and decentralized decisionmaking and thus flattens the pyramid of supervision. As the technologies become more accessible, for instance through “point and click” computing and digital voice recognition, they may paradoxically not require greater technical skill, but rather cognitive ability, basic literacy and numeracy, and analytic judgment.

As such, the primary structural labor market problem is a shift in the relative demand against less well-educated workers and those doing routine tasks and toward workers with greater problem-solving skills. This trend will continue, especially in the manufacturing sector: increased globalization and technological change have raised the knowledge content of goods in which industrialized nations have a comparative advantage. If properly managed, this shift in demand can lead to rapidly growing economies that produce high-wage, high-skill, jobs.
Governments have an obvious role in helping our people meet these new demands. Good education, training, and retraining are obviously top priorities. And firms can be encouraged to provide on-the-job training for their employees.

Education and training are key. Unless people are prepared for the jobs of the future and believe that rising productivity benefits them, they will turn against change. We cannot allow that to happen. This is why President Clinton and Secretary of Labor [Robert] Reich have proposed new lifetime learning initiatives.

In virtually all of these unemployment issues, whether the cause of unemployment is frictional, cyclical, classical, or structural, governments need to move away from passive unemployment insurance programs that merely provide income support to active re-employment systems that facilitate the movement of people from one job to the next. Longer-term income support for the able-bodied unemployed should be linked to participation in programs to upgrade skills and to gain employment. President Clinton has proposed a dramatic new program to do just that. The best way to deal with long-term unemployment is to prevent it by moving job losers quickly into new jobs.

Commissioner Flynn said in a recent speech in the Netherlands that this was a key area for improvement in the European Union. He noted that, of the 200 billion ECU's spent in the EU on labor support programs, fully two-thirds go to passive income support measures alone. The same pattern exists in the United States.

A Sixth Lesson From the American Experience Is that Liberalization, Deregulation, and Corporate Restructuring Are Needed to Produce Economic Growth

Beginning with the deregulation of airlines, trucking, and rail transportation and greater attention to the cost of government regulation during Jimmy Carter's presidency and continuing since then through Republican and Democratic Administrations, liberalization and decontrol have made the American economy more open, reduced barriers to the entry of new companies, helped to create new jobs in areas such as telecommunications, and provided lower costs to consumers. Europe, despite much progress, still maintains licensing practices, state subsidies, and heavy regulatory interventions that many economists believe impede job growth.

American corporations realized during the 1980s that the competitive pressures of a truly global economy required them to streamline their management
structures substantially, modernize their production techniques, and pay strict attention to costs. Levels of middle managers were released, greater worker involvement in decisions on the plant floor was instituted, workers were trained, and wage moderation was the order of the day.

This was a painful time for American workers. Wage increases were traded for job security, but hundreds of thousands of jobs were lost in basic manufacturing before the U.S. manufacturing sector recovered to near previous employment levels. Yet, wage increases were brought in line with productivity rises—an essential. Between 1985 and 1992, unit labor costs rose only 1% per year, far less than in most EC countries. Productivity in the manufacturing sector rose from an average 1.4% per year in the period 1973–79 to 3.1% in the period 1979–90.

The payoff from this turnaround is evident. An American-made car, the Ford Taurus, became the most popular in the United States last year; the United States developed a surplus in capital goods; the United States began to export at competitive prices machine tools, heavy construction equipment, and specialty steel, which were once non-competitive in world markets.

**Conclusion**

Unemployment is one of the major challenges we face on both sides of the Atlantic. The more we understand about the causes, the better able we will be to construct appropriate responses. Conferences such as these will help both our understanding and our policy response. But we must remember two things.

First, as the President mentioned, we must begin by recognizing the fundamental reality that private enterprise, not government action, is the engine of economic growth and job creation. But there are things government can and should do: adopt the appropriate policies to create an environment of non-inflationary growth, reduce rigidities in our economies (some created, perhaps, by government policies), encourage our people to adapt to global and technological change, and prepare them for the jobs of the new economy.

Second, governments must be willing to do what we call upon our people to do: we too must be willing to examine our policies critically in light of their result and changed circumstances and, if necessary, to adapt them to new realities. And in this in particular, this conference can help.

Already I believe that a sea change in attitude is occurring among the political leadership of the EU countries. Prodded in part by the Delors white paper and
by fierce international competition, significant steps are being taken to deal with the structural problems holding back job growth:

- Several countries are legalizing Sunday store openings.
- Many EU governments are encouraging part-time employment.
- Germany, Italy, and Spain are permitting the operation of private employment agencies.
- Almost all EU members are taking a hard look at their educational systems and some are focusing, as England is now doing, on training for the long-term unemployed.
- Italy, concerned with high youth unemployment, is raising its compulsory school age and creating a transitional training program for young people.
- Spain has passed a law easing the process of layoffs.
- Corporate restructuring plans are moving forward.

If the governments of the European Union continue to tackle their structural unemployment problems and combine them with growth-oriented fiscal and monetary policies, which to date have been largely missing, real progress in tackling unemployment can be made—sooner rather than later.

Thank you—and thanks for coming to this unique conference whose sponsorship indicates that both sides of the Atlantic share a common interest in creating more jobs and more growth.
Session 1: Assessment of Current Economic Trends and Problems

The first speaker began the session with an overview of the economic situation in Europe, with special reference to Germany as the largest and most important economy. He noted that in the past two years, there had been a noticeable shift in the relative economic fortunes of Europe and the United States. In 1992, the Clinton administration was elected amid widespread concern about the weak performance of the U.S. economy, whereas Europe was still experiencing strong growth. In 1994, in contrast, the United States was undergoing a strong recovery from the recession and declining unemployment, while in Europe recovery was still very weak and unemployment continued to rise. The United States was growing at a 4% annual rate, whereas Germany had undergone a 2% contraction in 1993.

The speaker noted that in much of the current discussion, especially in Europe, there was a tendency to ascribe the differences in European and U.S. performances to deep-seated structural factors, and in particular to differences in labor markets. The flexibility of the U.S. labor market was frequently noted, whereas the importance of labor market rigidities (e.g., restrictions on store-opening hours and on hours of employment) was often stressed with regard to Germany and Europe as a whole. In the speaker’s view, however, it was unreasonable to suggest that structural factors, which by definition have mainly long-term effects, could account for the economic developments of the past two years. The real reason for the changes were to be found in macroeconomic developments, which were more favorable on the U.S. side of the Atlantic. He noted that recession in the United States had resulted in a strong decrease in investment and a sharp decline in real interest rates. Real economic recovery did not start in the United States until 1992, but recovery has been very strong since the second half of 1993. In Europe, in contrast, current economic conditions are the product of a break in the economic cycle that was caused by the collapse of the Berlin wall in November 1989 and the subsequent reunification of Germany. Reunification led to a large demand stimulus from the eastern part of Germany, which in turn caused a steady buildup of inflationary pressures. The Bundesbank acted to curb inflation in 1992–1993 by tightening money and raising interest rates—actions which affected not only Germany but Europe as a whole. The speaker noted that inflation in Germany is now back in the 3–3.5% range, although this is still considered very high by some in Germany. He argued that in his view the Bundesbank’s anti-inflationary policies of 1992–1993 had been quite successful, as could be seen, for example, in the very modest wage demands for 1993. He claimed that the Bundesbank now needed to recognize
that inflation is being driven by relative price changes in some sectors of the economy, and that there was scope for a much less restrictive monetary policy—as had been the case in the United States.

Concluding his presentation, the first speaker reiterated that if there were differences between European and U.S. economic performance, they were largely the result of differences in macroeconomic policy. Accordingly, if Europe was to learn “lessons” from the United States, it should be in the macroeconomic realm, not in microeconomic matters such as the functioning of labor markets. Indeed, he contended that certain features of the German labor market often seen as weaknesses, e.g., centralized wage bargaining, were in fact the sources of important strengths.

The second speaker also addressed the question of overall economic performance and conditions, focusing mainly on the United States. He agreed with the first speaker that Europe and the United States were at different stages in the business cycle. This raised the question for the United States, however, of how it could sustain growth without rising inflation, and how to translate that growth into the right kinds of employment. He noted that the experience of the 1980s had shown that unemployment could fall only to a certain level without fueling inflation. This level appeared to be 6%.

For now, however, inflation is not an immediate problem, and the focus ought to be on microeconomic issues, including the quality of jobs. The speaker noted that despite major differences between the United States and Western Europe, both sides were in fact confronted with the same basic problem: how to find good jobs for people at the bottom end of the wage and skill structure. In the United States, this problem manifested itself as one of falling wages for low-skilled workers and the related problem of the working poor. In Europe, the problem manifested itself in the form of high unemployment.

The speaker further noted an important structural difference between the two continents. The incidence of unemployment is higher in the United States than in Europe, but the average length of unemployment is much longer in Europe. The speaker noted that as a practical matter, it was simply not possible in the United States to remain unemployed for a long period of time and “stay alive.” U.S. workers receive unemployment compensation only for a limited period, and become eligible for such compensation only after a period of employment. In the United States, unemployed workers are literally forced back into the labor market and, as a consequence, the United States is a “job machine” able to generate large numbers of new jobs. In Europe, in contrast, there has not been significant job growth over the last thirty years.
On the other hand, Europe has had significant real wage growth for those with jobs, whereas in the United States there has been a stagnation in overall real wage growth since the 1970s. The U.S. problem thus is not one of high unemployment but of stagnating wages. The speaker also cited statistics that showed widening wage and income disparities on the U.S. side. In recent years, for example, the difference in the real growth of wages between high school and college graduates had “exploded.” The speaker concluded that for Europe, moving to flexible labor markets along U.S. lines would not constitute “the” answer for Europe, but simply a different answer to the same problem, namely the inability of either the United States or Western Europe to generate sufficient numbers of quality jobs for those at the low end of the wage scale.

The speaker went on to address some of the underlying causes for the employment problems seen on the U.S. side. Two factors were most often cited as causes for the stagnation in real wage growth in the United States and for widening income disparities—technological change and international trade. With regard to the latter, the speaker noted that in accordance with the theory of factor-price equalization, wage rates among countries would tend to equalize as international trade expands and as the jobs at the low end of wage scales in wealthy countries are exposed to competition from workers in lower wage countries. While the speaker agreed that factor-price equalization theory applied as a general principle, he argued that the data did not support the conclusion that U.S. economic problems were the result of competition from low-wage countries (even though competition with Mexican workers had loomed large in the debate over the North American Free Trade Agreement [NAFTA]). He noted that the United States has had a competition problem not with low-wage countries, but with high wage regions such as Western Europe and Japan.

In any case, the speaker argued that it was counterproductive to focus too much on why these developments were occurring and not enough on what to do about them. With regard to the latter, he noted that rising real wages over time depend upon the upgrading of the skills of the workforce on the supply side to match the employers’ needs on the demand side. The speaker was pessimistic about the ability of the United States to address the supply side problem, i.e., to maintain and improve skills through education. He noted that the United States does not have school-to-work transition programs in place, and that this was a major drawback, since effective policy for upgrading workplace skills needed to focus on the school-to-work transition issue.

The United States did have considerable experience with job-training and retraining, but the record showed that the effectiveness of programs depended very much on the trainees’ relationship to the job market. Job training had been
shown to be reasonably effective for adult women—a population group that was in many ways already highly skilled and that found it relatively easy to re-enter the job market. Training programs for youth were a break-even proposition, and those for adult men were largely not effective. Overall, the speaker concluded that there is not a high return on job training, and that the emphasis in policy therefore ought to be on youth and on the school system. In these areas he believed that there were important lessons that the United States could learn from Europe. He also noted that the educational performance of U.S. and European children was roughly comparable up to the sixth grade (i.e., age 11–12), but that between the sixth and twelfth grades, educational performance "goes flat" in the United States, while European youth gain important advantages in those years. Accordingly, U.S. policy needed to focus on improving the performance of the U.S. school system in grades 6–12.

Following the opening statements, a number of participants commented on various aspects of the economic situation in Western Europe and the United States. A European participant made the point that although there is much talk in Europe of an unemployment crisis, there had in fact been almost no increase in structural employment in Europe since 1985. Between 1973 and 1985 structural unemployment grew at a steep rate, reaching a constant level of about 10% for the Community as a whole. Europe now faced the very difficult problem of trying to bring this structural level down. One solution, as mooted in the Delors white paper, was to learn to live with larger wage differentials. Another problem that Europe faced was that the mobility of labor was much lower than in the United States. Workers were reluctant to move, even though it was clear that many people were not employable where they happened to be located. In response, a representative of the business community noted that labor mobility was increasingly becoming a problem of the past, and that in the information industry jobs were becoming location independent. Technology allowed firms to locate where trained labor was available at the best price. In practice this might mean outside of the Community or the United States.

Another speaker argued that macroeconomic policy had become less relevant than microeconomic differences between countries. He noted that a convergence among industrialized countries had occurred in macroeconomic policy, resulting in a low inflation environment that was very beneficial. The big challenge now was to identify the important microeconomic differences between countries and to seek convergence around policies that promoted employment and the creation of jobs.

Several speakers disputed the contention that macroeconomic policy was under control and that the focus of attention should therefore shift to the
microeconomic level. One speaker noted the problem of forecasts, and stated that the OECD had been predicting 2-3% economic growth for some time, but that in fact growth had consistently lagged expectations. In his view there was a danger that the level of structural employment was constantly ratcheting upward, and that even when strong growth resumed unemployment might not fall. This would mean entering the next recession at still higher levels of structural unemployment than had been the case in the past. To his thinking, government had to take decisive action to deal with unemployment, including possibly by making use in innovative ways of the 40% of GNP accounted for by public expenditures.

Another speaker noted that macroeconomic and microeconomic policies in fact went together, and that it was far easier to undertake structural economic reforms in an environment of robust growth than in a recession. Several speakers also noted that there were still severe macroeconomic imbalances to be dealt with. One noted that financial markets were still influenced by budget deficits and the inflationary expectations that they generated. This resulted in higher short-term interest rates and a dampening effect on growth. Another speaker remarked that in both Europe and the United States the persistence of large budget deficits meant that fiscal policy had lost its effectiveness as an instrument of government policy. Governments needed to reduce budget deficits so that they stopped crowding out investment and so that they would have a second macroeconomic instrument—along with monetary policy—to deal with the unemployment problem.

Another participant argued that for Europe this would be the worst possible time for fiscal stimulus. Europe was currently moving out of a recession, and it therefore needed to concentrate on fiscal consolidation and structural reform—not macroeconomic stimulus. Another participant expressed his conviction that market economies had an inherent tendency to create jobs rather than unemployment. Therefore, it was necessary to look at government policies that were creating unemployment, rather than to think only of government as a solution to the employment problem.

With regard to microeconomic issues, there was considerable discussion of comparisons within and between countries and of the difficulties encountered in attempting to draw the right conclusions about the relationship between employment and structural factors in the economy. A Canadian participant noted that the level of unemployment in Canada was higher than in the United States, and that the difference could not be accounted for by macroeconomic policy. In his view, much of the difference could be attributed to differences in social policy. Canada had instituted an unemployment compensation scheme
that was linked to specific types of sectoral unemployment. This had the effect of locking people into sectors where there was no job growth, rather than of encouraging labor market mobility and migration of workers to new types of employment.

Another speaker argued that employment situations were so unique to individual countries that it was questionable what could be learned from cross-national comparisons. In his view it was more promising to look at differences within countries over time. In this regard, the United Kingdom was perhaps the most interesting case, as it had implemented far-reaching labor market reforms in the 1980s. In his view the results were disappointing. There had been increases in part-time employment, but no increase in the number of full-time jobs.
Session 2: Policy Responses in Europe and the United States

The first speaker in the session provided an overview of policy from the European perspective. He noted that the European economy was healthy throughout the second half of the 1980s and the early part of the 1990s, but that conditions had worsened and that tackling unemployment was now the European Union's first priority. He noted that the Delors white paper stressed the need to create a better environment in Western Europe for the success of advanced, high technology industries, e.g., in the information sector. This meant increased investment and more expenditure on research and development. He noted that the European Union's growth potential was now about 2.5%, and that growth above this level was not possible without triggering inflation. It was necessary to raise the growth potential to 4%, which in turn would create conditions for bringing down the high level of structural employment.

With regard to Economic and Monetary Union (EMU), the speaker noted that progress towards this long-term objective had stalled because of both political and economic factors. Political opposition grew in many countries because of concerns about national sovereignty. Markets also changed attitudes, as was seen in the speculation against the weaker currencies in the European Monetary System (EMS). Over the long term, however, the speaker stressed that EMU was important for Europe's prosperity and competitiveness. In his view, maintaining the strict criteria for entrance into the EMU was more important than deciding precisely when particular countries joined the system.

The speaker noted that despite the difficult economic conditions of recent years, the European Union had for the most part resisted the temptation to seek protectionist solutions. In his view this was a wise choice, as the potential benefits of the GATT agreement for Europe far outweighed the costs. Looking to the future, he noted that the Union supported the creation of a strong World Trade Organization that would help to ensure the strict application of the GATT agreements in all signatory states. While stressing the importance of free trade for the European economies, the speaker noted that the growing globalization of trade inevitably would lead to intensifying competition and that this would have implications and costs for social policy and equality. Thus along with increased investments to improve European competitiveness, adjustments on the social side would be needed.

In concluding, the speaker listed five tasks which governments and the European Union needed to undertake to address the unemployment issue. They needed to:
• complete the European internal market by removing remaining intra-EU barriers to trade
• press ahead with deregulation in many sectors
• work to improve worker skills
• make competition policy in the Union stricter
• undertake measures to ensure that labor markets became more flexible, and ensure that wage costs did not rise above the rate of productivity growth.

The second speaker discussed policy responses from a North American perspective. He began with an overview of the recently concluded G-7 Jobs Summit in Detroit, and noted the high degree of consensus among the participants. Ministers expressed agreement on three main themes: (1) the positive effects of technology; (2) the importance of training; and (3) the need for increased flexibility.

With regard to technology, the speaker noted that the G-7 ministers had recognized the contribution of technological change to productivity and growth. Research had shown that individual firms that did not continuously improve their technology generally lost competitiveness and the ability to employ workers. Conversely, there was a positive correlation between the adoption of new technology and firm growth. This correlation held true for all firms, irrespective of size.

Turning to training, the speaker noted that in the United States there were certain differences on this issue between the Democratic Clinton administration and its Republican predecessors. In his view, the Democrats explicitly recognized widening wage disparities as a problem, and sought to use training policy to address this problem. Output in the United States was clearly shifting towards high-skill sectors, decreasing demand for low-skill workers. Widening wage disparities were a result of this trend. Training and education were identified as the clear answer to the problem, as efforts needed to be made to transform low-skilled workers into the highly trained staff demanded by industry. The speaker suggested that addressing this issue strictly on the educational level would be wrong, and that efforts had to be made to provide training for those already in the workforce and for the unemployed. He noted that there was a large and continuous turnover in U.S. labor markets, and that this provided both a need and an opportunity for continuous upgrading of skills. He was pessimistic, however, about the ability of policies and programs to bring about such upgrading, given past performance in this area.
Returning to a theme that had been addressed in the previous session, the speaker addressed the question of what was driving the shift in output to high skill sectors and the consequent widening of wage differentials. Two causes were most often suggested: trade and technological change. He strongly defended the view that technology was the decisive factor, even though trade had figured heavily in many political discussions, e.g., concerning NAFTA. He suggested that a good way to think about the effects of technological change was to consider the relationship between a given set of workers and the computer. If the computer was a complement to those workers, its use tended to increase productivity and by implication income. If the computer was a substitute for those workers, however, employees in that sector generally would experience lower relative incomes.

Turning to the third Detroit consensus point—flexibility—the speaker noted that this term was widely used, even though it was not clear what was meant by it. Taking the United States as an example, the speaker offered statistical evidence to show the huge amount of labor turnover that occurred. Even though unemployment held more or less steady at a fairly low rate, in any given quarter 5% of all jobs were destroyed, while new jobs were created to take their place. This rapid turnover played a vital role in the U.S. economy, as the continuous change in employment patterns tended to shift the economy as a whole towards higher levels of technology and productivity. Similarly, the “squeezing out” of failures through this process tended to shift the aggregate profile of the economy in a positive direction, as the number and relative weight of high productivity plants grew at the expense of lower productivity establishments. He concluded from this evidence that it was essential for economies to accommodate change and not to try to stifle it. Accordingly, he was concerned that in the United States the growing rigidities associated with health insurance (i.e., reluctance on the part of workers to change jobs for fear of losing health care coverage) might have the undesirable effect of slowing labor turnover. He also noted that the evidence would seem to suggest that high hiring costs and the lower labor turnover in Europe probably undermine productivity growth in European industry.

The speaker concluded his remarks with some observations on the interaction between monetary policy constraints in Europe and efforts to eliminate structural problems in European labor markets. He contended that the current framework for monetary policy in Europe, i.e., explicit and implicit pegging of exchange rates, limits the potential benefits from the elimination of structural problems in European labor markets. In the current system, policy responsibilities are fundamentally asymmetric. Germany sets monetary policy to meet its own domestic goals while other countries set monetary policy to maintain nominal
parity with the DM. Within this framework, the Bundesbank has the flexibility to respond to domestic supply shocks, while other monetary authorities do not. This means that reductions in structural problems in labor markets are more likely to generate reductions in actual unemployment rates in Germany than in other countries.

To illustrate this point, the speaker contrasted the results of a permanent reduction in the non-accelerating rate of inflation (NAIRU) in Germany with the results of a similar reduction in France. The Bundesbank appears to be trying to hold output below potential to bring down inflation; hence a sudden fall in the NAIRU would result in a lower unemployment rate in Germany, as the Bundesbank would be able to lower interest rates to achieve the same inflation target. In contrast, a decline in the French NAIRU would have little impact on French monetary policy. Absent the possibility of an appreciation of the franc vis-à-vis the DM, French interest rates could not fall below German rates. Thus a reduction in the French NAIRU could at most eliminate the small remaining differential between French and German interest rates, without a direct positive effect on the French unemployment rate.

He concluded that the asymmetry in European monetary arrangements that became apparent after German unification could undermine the effects of successful labor market reforms outside Germany. To eliminate the general problem, the ERM either had to go forward to something closer to full monetary union, or backward to a system of more flexible exchange rates, either of which would be preferable to current arrangements.

Following the opening statements, a number of participants elaborated on various points made, both with regard to macroeconomic and microeconomic responses to the current employment crisis. A European participant stated that the European Union's response to the recession had been weak and late. The mandate for a Commission white paper had been issued only a year ago, and action could have been taken much sooner. The Delors white paper in itself was useful as an exercise in consensus building, but actual implementation of its recommendations would be difficult. The policymaking situation in Europe was simply not adapted to pushing through labor-market reforms on a Union-wide basis. In his view there was still much to be done in Europe on the supply side (e.g., training), and this would take time to implement and show its effects.

Another speaker returned to the theme of technological change, and suggested that in the future technological change might not have the same effects on job growth as it had had in the past. Much about the future was simply unknown. In his view there was a tradeoff between the wide benefits to society that resulted
from technological change and the narrow costs of such changes. These costs tended to be borne mainly by workers at the low end of the skill spectrum. Accordingly, it was important to use the European social safety net in ways that would encourage workers to adjust to rather than seek to retard technological change. At the same time, it was necessary to foster continuous training and upgrading of skills in order to turn "losers" into "winners" by providing people with the necessary human capital.

One speaker warned that current policy discussions might be focusing too much on outdated models that no longer fit current realities. Several speakers noted the importance of the service sector, and the difficulties we have in measuring and understanding its functioning. It was still not clear whether the growing service sector was part of the solution (as the main provider of new jobs), or whether its growth simply masked an even larger problem down the road, namely massive unemployment in this sector as well. Another speaker questioned the very notion that technological change was more rapid than or different from such change in the past. In reply, another participant acknowledged that the current rate of change in the manufacturing sector was by many measures lower than it had been in the 1950s and 1960s. What was new, however, was technological change relating to information and computing, which mostly affected the service sector. He also argued that technological change was in many respects becoming more disruptive in its effects, largely because of the speed with which it diffused through national and global markets. The life cycles of technologies had shortened dramatically.

Another participant commented extensively on the situation in Germany, and on what she saw as the failure of recent German policy. She acknowledged that Germany still held a strong position in the European and global economy, and that it was still attractive as a business site. But it was important not to ignore the many warning signs: the 1.3% decline in GNP in 1993; inflation doggedly persisting at 4%; and annual gross transfers for the unification process running at DM 200 billion. The underlying weaknesses manifested themselves in the labor market, where 3.5 million people were currently out of work.

The speaker contended that the structural weaknesses of the German economy are not exclusively the result of the unification process. Many were already discernible in 1989, but they were temporarily obscured by the subsequent reunification boom. Moreover, in her view, German policy regarding reunification had been badly flawed. Reunification had been an opportunity to experiment with new and more flexible approaches to economy and society—a chance for renewal and modernization that would have spread to Germany as a
whole. Instead, in her view, the same encrustations in economy, bureaucracy, science and culture that existed in the West were imposed on the East.

The speaker concluded by putting forward nine specific suggestions for ways in which Germany could become more competitive and preserve its position as a site for employment and business activity. They were (1) better controls on funds spent in the new Länder, and especially the elimination of maintenance subsidies in coal, steel, agriculture, and shipbuilding; (2) a change in wage policy to allow for stronger regional and economic spreads in wage scales; (3) greater flexibility in working hours, including more part-time work, especially in the service sector; (4) change in the present rigid rules governing store opening hours; (5) renewed stress by companies on new product and service ideas to counteract declining demand for established products; (6) greater attention to new markets, especially in Asia; (7) efforts to stimulate innovation through entrepreneurial risk; (8) abandonment of the utopian concept of full employment, and recognition by the government that the increasing rate of economic change—the simultaneous destruction and creation of jobs—would mean a higher base-rate of unemployment; and (9) cuts in the overly generous social welfare system that was imposing excessively high costs on German business.

Another European speaker noted that all industrialized countries were having problems with employment issues. This was in part because capital and investment had become highly mobile, whereas human beings were far less so. The focus of policy therefore had to be on human resources. What was needed was a balance between increased flexibility that would facilitate adaptation to change and the maintenance of certain minimum social standards. In his view there was greater understanding in Europe than in the United States that unemployment was a complex, multi-faceted problem that did not have a single solution. Solutions needed to be found, but the search for them had to be conducted in the context of the overall social environment.

He also stated that it was important not to exaggerate the differences between Europe and the United States with regard to job creation, and thereby to draw the wrong policy conclusions. In the United States performance with regard to job creation was good, but part of the U.S. growth was attributable to increases in population. He noted that Japan and Scandinavia had also had very good job growth in recent decades, and that this performance needed to be understood as well.

In concluding, the speaker noted that it was clear from his perspective that government officials were convinced that "something needed to be done," including, if need be, a fundamental redesign of policies. It was unclear,
however, whether the political will existed to push through difficult changes. At the Detroit summit there had been a high degree of consensus, but it also was apparent, in this speaker's view, that some ministers were more ready than others to undertake the difficult task of implementation.

At the conclusion of the session several representatives of the European business community reported on measures at the firm and enterprise level that were being taken in response to the unemployment problem. A participant from the United Kingdom reported on a successful effort to deal with unemployment through the establishment of targeted networks bringing together groups of companies by industry sector and size. It was useful for companies to constantly exchange information about what worked and did not work in the areas of training and retraining, since businesses were more influenced by concrete examples of success than by abstract arguments.

Another business representative stated that he found some aspects of the conference discussion too abstract. It was important not to lose sight of the fact that employment was the result of activity and initiative. Everything boils down to competition and to costs. In Europe many costs had gotten too high and too much savings had been diverted from competitive purposes to consumption. Europe had much to learn from the United States, both with regard to competition policy and privatization and deregulation, and concerning small and medium-sized enterprises, which appeared to be more entrepreneurial in the United States than in Europe.

A third speaker from the business community observed that large firms were slimming down and could not be looked to as net creators of employment. Much low-end production was moving away from the large firms in Western Europe to suppliers in Eastern Europe and the Far East. However, large firms had been able to play a positive role in working with small and medium-sized enterprises, some of them founded or staffed by former employees. These enterprises could cut costs, preserve jobs in Europe, and cut dependence upon suppliers in the Far East and elsewhere for certain components.
Session 3: Employment Effects of Privatization, Deregulation, and Technological Change

The afternoon sessions dealt with factors most often seen as major causes of change in the employment situation in Europe and North America—technological change, privatization and deregulation, and international trade and investment. The opening speaker addressed the issue of technology. He noted that in recent decades there has been a steady internationalization of low-skilled jobs, owing to changes in transportation, communications, and the growth of international trade. Under the factor-price equalization theory, this trend would suggest declining relative wages for low-skilled workers in the developed world. At the same time, there has been strong wage growth in high-skill jobs in Western Europe, as technology-driven gains in productivity have displaced labor. He noted that in many rapidly growing service industries there had been a lack of strong productivity gains, and this trend was linked to the absorption of large amounts of labor and the high levels of employment in this sector.

He further noted that changes in information technology were now increasing the tradability of many service products. For example, telecommunications and computer technologies now enabled the production of certain services, e.g., education and entertainment, to be separated geographically from their consumption. He was concerned that much of the policy debate on job creation focused on the limited number of non-tradable goods sectors. In his view this was unfortunate, given the fact that the distinction between tradable and non-tradable goods was changing and that the non-tradable sector was shrinking. He stressed that the emphasis in policy should be on high-growth—although not necessarily high-technology—industries, and that deregulation and privatization were needed to generate new markets and employment activities.

The second speaker stated that in his view it was a mistake to focus on unemployment as such. The real issue for Europe was the competitiveness of European industry, since unemployment was merely a symptom of lack of competitiveness. He noted that European performance in recent years, as measured by growth of GDP per capita, inward foreign direct investment, labor costs, and so forth, had not been very favorable. Signs of increased lack of competitiveness in Europe included increasing business costs, an unstable macroeconomic environment that affected investment planning, and inadequate productivity growth in many sectors. He contended that Europe needed to focus more on competitiveness, and to get away from the idea that this concept simply meant cost-cutting through easier hiring and firing of workers.
He endorsed the view of others that labor market reforms were needed, e.g., in the area of reducing the costs of eliminating workers. He also stated that education and training were essential in helping the labor force adjust to the needs of the market, but that it was an illusion to believe that they alone could solve the problem. He stressed that employers should not be blamed for introducing new technologies, but rather that we needed more technology students in Europe to take advantage of global trends. At the same time, he posed the question of whether or not it was feasible to recreate certain unskilled or low-skilled jobs for European workers that had been eliminated through automation—e.g., ticket-taking in the Paris Metro. He was not adopting a "Luddite," anti-technology position, but he thought that in cases where the difference between the cost of a worker and the cost of a machine was marginal, it might make sense to adopt policies that would encourage employment. The idea needed further investigation with regard to cost implications.

Turning to the broader picture in Europe, he stated that there was a need for more inter-firm competition, and that this would be brought about in part through privatization. Europe was not yet acting like a single competitive market. In some sectors, e.g., airlines, there was a long way to go before intra-European competition was achieved. He added that as a rule, states did not run firms as efficiently as did the private sector, and that therefore privatization in Europe would bring efficiency gains. It was also important to do away with state subsidies as a means of propping up weak firms, be they in the public or private sector. He noted that in Europe the trade unions had come to believe that firms were immortal, and for this reason tended to "suck them dry." Overall, the potential gains to Europe from privatization were enormous. Public sector firms that were "dead" would finally be given a "decent burial," whereas other firms, e.g., in the telecommunications sector, that had enormous growth potential currently being restrained by government ownership would be allowed to expand. He also noted that the survival rate of small and medium-sized firms in Europe was high relative to that in the United States, and that continued growth in this sector was to be welcomed.

The speaker concluded with a number of prescriptions for increasing the competitiveness of European industry. In general, he called for reducing the size of the state and making it more efficient. He hoped that European integration would result in national regulations being replaced by uniform European standards, but he was not sure that this was in fact happening. There was a danger that Brussels would simply add a layer of bureaucracy and regulation while national systems remained intact. He also endorsed economic and monetary union as a factor that would increase competitiveness, but stressed that
this required fiscal and budgetary discipline and the elimination of "electoral budgets." Finally, he noted that Europe needed more consumer-oriented companies and less of a producer orientation. The potential for deregulation in Europe was high, but the effects of not privatizing and deregulating would be disastrous for European competitiveness and, by extension, employment.

Speaking from a trade union perspective, the next speaker questioned many of the previous assertions made regarding competitiveness and employment, which he saw as excessively business-oriented. He stated that all of us had to confront the stark fact that from now on there would be fewer jobs for our children than there had been for us, and that as a result a growing number of these children were beginning to ask difficult questions, such as why they should care about a democratic society that could not offer them employment.

The speaker addressed the issue of the elimination of jobs through the introduction of new technology, citing as an extreme example a machine that would allow a cow to signal its own desire to be milked, thereby eliminating all need for dairymaids and dairymen. He acknowledged that Ned Ludd had been wrong, but he was wrong about the solution, not the identification of the problem. It was true that in the long run new technologies created more jobs than they eliminated, but this did not eliminate the need for us to seek short- and medium-term remedies for those threatened with the job losses.

He did not believe that the solution was to force the unemployed to become the "working poor" through the dismantlement of social protection. This would put the whole burden of adjustment on the weaker members of society. There would be a downward spiral of competition resulting in ever-lower paychecks. It would never be possible in a democratic society to push wages low enough to effectively compete on this basis with low-wage countries. Society would rapidly turn toward dictatorship, and the economy itself would be increasingly characterized by a lowering of quality standards, growing stagnation of markets, and increased inequalities and social conflicts.

To avoid this scenario, he contended that it was necessary to humanize the process of change so that the workers accepted it as a source of security rather than attempted to find security through resistance to change. He noted that the OECD's technology and economy program underlined the importance of the human factor in technological change. The competitiveness of firms and regions in the future would depend on the skills and motivations of people working in them. These changing competitive realities also argued in favor of increased attention to the human factor, as a new "brainforce" steadily replaced today's "workforce" in all advanced countries.
He also called for greater attention to retraining as a means to handle major structural changes within companies and sectors. As a result of lay-offs and sweeping corporate restructurings, in some OECD countries only a minority of workers over age 55 remains in the work force. This was a great loss of skills and professionalism—for them and for their former employers. Social plans that encouraged this trend had to be replaced by employment plans that encouraged companies to diversify, and to maintain employment through retraining. This in turn required cooperation among management, trade unions, labor market authorities, and regional and central governments to establish alternatives to unemployment.

In concluding, the speaker noted that such working together among government, business, and labor was often dismissed as a “corporatist” gimmick from one perspective or another. Many academics and economists saw the process as leading to rigidities and uncompetitiveness, while there were those who condemned such cooperation from the opposite ideological side of the coin as unacceptable “class compromise” or “class betrayal.” In his view, however, there was no alternative to forging constructive cooperation between social partners and public institutions, as this was the only route to recovering a competitive edge in the global economy.

Several participants questioned whether such a consensus model could work for Europe. One noted that the Netherlands has had a sophisticated system of consensus building among the social partners, but that it had not saved jobs. Another speaker supported the general thrust of the argument for a more “human” approach to employment issues, noting that in general the 1980s had been a very pro-business decade in Europe, but that businesses were still complaining about lack of support from the political system.

Other participants returned to the subject of technology. An American speaker reported on the U.S. project for a National Information Infrastructure (NII), and suggested that NII would lead to increased productivity in all sectors, manufacturing and services. Technological change, particularly in telecommunications, was rapid and unstoppable, and the only proper response to it from government and society was training, retraining, and further education. Commenting on the situation in Europe, the speaker noted that it was well behind in this area, and that its most pressing requirement was for privatization leading to effective competition, which would unleash the innovative forces of the market. Another U.S. observer agreed with this assessment, but added that Europe is institutionally in a transition phase and that it would have difficulty in implementing deregulation and privatization decisions, since these needed to be undertaken on a Europe-wide basis. In his
view, institutional barriers would undermine Europe’s ability to compete in many areas.

Several other speakers addressed the issue of externalities related to technological change and the information revolution. One characterized information as a “transformative technology” with wide effects throughout the economy, mostly positive but with some negative implications. One policy option might be to set a turnover tax on the flow of information. Taxing every bit of information sent from one point to another would be like a toll tax on the information highway. The funds generated could then be used for broader social purposes. To this suggestion, a European participant replied that “we already have enough taxes.” Another participant suggested that taxes were a secondary issue, and that the more important question was pricing. How prices were set, not only for information services but in other sectors of the economy affected by the information revolution, had enormous social and political implications.
Session 4: Employment and International Trade and Investment

The first speaker in this session focused on the linkages between growth and employment and international trade and investment. He stated that the major challenge facing the world economies is the revival of economic growth and employment. OECD real growth was 1.1% in 1993, down from 2.5% in 1990 and an average of 5% in the 1960s, 3.4% in the 1970s, and 2.8% in the 1980s. The OECD has forecast growth of 2.1% in 1994. The OECD unemployment rate was 8.2% in 1993, up from 6.3% in 1990 and an average of 3.0% in the 1960s, 4.5% in the 1970s and 7.3% in the 1980s. The unemployment rate is forecast at 8.5% for 1994. OECD average compensation growth per employee in real terms is expected to fall to 3.2% by 1994—the lowest rate of increase in three decades.

At the same time that unemployment has been rising and growth has been stalling in the major industrialized countries, a number of profound structural changes have been underway. They include:

- liberalization of trade and investment
- globalization of firms and industries
- increasing pace of technological change
- greater reliance on market forces
- ascendancy of services
- increasing role of the private sector
- move to knowledge-based economy
- increasing economic significance of the Asia-Pacific region
- regionalization of markets.

The key question for policy was the relationship between these trends and the poor macroeconomic performance of the world economy. Was it cause, consequence, or fortuitous correlation? In the global economic environment of the 1990s, what influence do international trade and investment have on the complex process which results in growth and the creation of jobs? Do recent changes which increase the role of multinational enterprises and technology in the global economy favor economic growth or do they hurt?

In addressing these questions, the speaker noted that the process of globalization was leading to profound change in the importance of global strategies to multinational enterprises. In 1986–1990 international investment grew by 34%, compared to growth in trade of 12% and in output of 9% over the same period.
Moreover, international competition for investment was intensifying as developing countries increased their productive capabilities and with the transitions in the East European countries. Evidence of the effect of international trade and investment on economic growth could be seen in the performance of the Asian countries. The Asian newly industrializing countries (NICs)—Hong Kong, Singapore, South Korea and Taiwan—increased their share of world trade in manufactured products from 1973 to 1988 from 4% to 10%, and their per capita incomes were rising toward U.S. levels.

The speaker pointed out that beyond the statistics, there was a variety of views on the links between growth, trade, and international investment. Debate among economists and policymakers focused on whether we are in a paradigm shift within which there is a new sort of global corporation with a new emphasis on technology. The debate also questioned the importance of competitiveness and raised the issue of whether trade creates or destroys jobs.

Debate on these questions could be broken down into concrete analytical and policy issues, which the speaker characterized as follows:

- **International trade policy and growth**
  - Should we continue efforts to improve our trade performance or will the “competitiveness obsession” result in trade wars and more protectionism if countries should find that they cannot compete?

- **Technology policy and growth**
  - Is increasing spending on infrastructure, technology, and human capital the solution to the growth and jobs crisis or can these efforts to improve international competitiveness result in a misallocation of resources?
  - Is there a special role for technology in the solution to the growth/jobs problem?

- **International investment policy and growth**
  - Does firm ownership really matter anymore?
  - Should a code of conduct be developed to govern the behavior of multinational enterprises in host countries?
  - Should there be a GATT for investment?

The speaker then attempted to shed some light on these issues by providing a sampling of analytical findings. First, he argued that trade and international investment are complements. For Canada, the elasticity of trade flows to direct investment are positive and significant. For all industries, a 1% increase in the stock of inward and outward investment increased trade by 1%. Intra-firm trade is a significant proportion of overall trade between Canada and the United States.
Fifty percent of all exports and 70% of all imports of Canadian affiliates operating in the United States are of the intra-firm type.

Second, foreign-owned firms on average performed well for their host economies. The labor productivity of foreign-controlled firms in Canada is on average 20% higher than that of domestically-controlled firms. Trade propensities (exports and imports as a proportion of sales or in relation to employment) of foreign subsidiaries are significantly higher than those of domestic firms. However, the R&D propensity of foreign-controlled firms in Canada is below that of domestic firms.

Third, outward-oriented countries had good economic performance. World Bank research suggests that the economic performance of outward-oriented economies is broadly superior to that of inward-oriented economies in terms of GDP, per capita income, gross domestic savings rate, manufactured exports, and inflation. For example, real GDP averaged 8% annual growth in 1973–1985 among strongly outward-oriented countries, versus 2.5% for strongly inward-oriented economies (real per capita GDP growth: 6% versus –1%; average growth in manufactured exports: 14% versus less than 5%).

Fourth, innovation and success of small and medium-sized enterprises (SMEs) was correlated with whether the SME exports or not. The percentage of staff in R&D units, the R&D to sales ratio, the percentage of investment in product-related R&D and the percentage of investment in process innovations were all higher for exporters than for non-exporters.

Fifth, outward-oriented firms outperformed their inward-oriented counterparts on most measures. On average, sales and assets of outward-oriented Canadian firms grew significantly faster than domestic-oriented Canadian-owned firms (between 1986 and 1991, 9.1% versus 7%). Growth of labor productivity, capital productivity, the marginal productivity of capital, and the average rate of return and R&D intensity were all higher for outward-oriented Canadian firms than for their inward-oriented counterparts. However, employment growth was stronger among domestic-oriented firms: between 1986 and 1991 it averaged 2.7%, compared to only 0.7% for the outward-oriented firms.

Sixth, international investment appeared to have positive employment effects for both host and home countries. In the majority of OECD countries, there was a more rapid increase in jobs in foreign affiliates than in domestically-owned firms in the 1980s (between 1980 and 1990 employment in foreign affiliates increased in the United States, Austria, the UK, Sweden, Turkey, Portugal, Ireland, Finland, and Norway; it decreased in Australia, Japan, France, Canada, and Germany). With regard to home country effects, trends in direct international investment
and domestic investment in Canada, Japan, the UK, and the United States indicate that direct investment abroad does not replace domestic investment at home. The outward investment activities of Canadian-based multinational enterprises are likely to affect the structure of employment as opposed to the total number of jobs in Canada. There may be movement away from low value-added and low wage to higher value-added and higher wage jobs, due to the relocation of low-skilled jobs to low-wage countries. However, it may be the case that multinational enterprises from small market economies shift high-value added jobs and activities to countries with larger markets to obtain the benefits of spillovers arising from clustering effects.

The speaker concluded his remarks with some general observations regarding the management of international trade and investment issues in recent years. He noted that the successful completion of the Uruguay round of GATT was an important achievement for the entire world trading system. It reduced tariffs on manufactured goods by one-third, introduced trade in agricultural goods and in a number of services into GATT, enhanced protection for intellectual property rights, and provided for the establishment of the World Trade Organization to replace GATT. Another landmark development was the NAFTA, which created a regional trading block based on agreements regarding services, barriers on industrial goods, investment, intellectual property rights, agriculture, and trade rules and dispute settlement processes. Emerging management efforts included Asia Pacific Economic Cooperation (APEC), the initiative within the OECD to multilateralize formal rules governing the flow of investment among member countries, and of course the G-7 jobs ministerial in Detroit.

He also added three tentative conclusions based on the analytical evidence presented. First, institutions matter. The institutional structure of an economy is now a major determinant of economic growth. Included in this structure are government policies, corporate governance, and organizational linkages between companies. Increasingly, trade and economic frictions between countries are "system frictions," and thought must be given to the question of whether conflicts between domestic systems are hampering growth and jobs.

Second, technological spillovers and externalities are a key factor. Technology plays an undisputed role in economic growth by increasing the productivity potential of all factors of production. International trade and investment are the carriers of technological knowledge and capability around the world. It might be that part of the solution to the jobs and growth challenge is to be found in policies that better capture technology spillovers.
Third, expanding participation in global markets, although on balance positive, does entail adjustment costs. Liberalizing trade and investment will create growth and jobs, but will likely result in more structural employment changes as countries refocus and specialize in areas of comparative advantage. Part of our current problems with growth and jobs may stem from the fact that we do not have the appropriate tools in place to assist the workforce in adapting to change. It may also be helpful to encourage small and medium-sized enterprises to participate more in the global opportunities opened up by trade and investment liberalization.

Following this intervention, several economists presented the results of empirical research on the relationship between trade and employment. The first speaker noted that in a country with low openness (i.e., ratio of total foreign trade to GDP) such as the United States, the employment effects of trade were small but positive. For a country with high openness such as France, the employment effects of trade were larger, but the net effects were still relatively small. Jobs lost to imports and gained from exports in large part tended to cancel each other out, with the net effect being modestly positive. However, the speaker noted that it was not possible to talk about labor as a single entity, and that foreign trade had much larger effects when looked at on a sector-by-sector basis. As had been noted by other speakers, it increased the demand for skilled labor and a constant upgrading of skills in the economy, while decreasing the demand for unskilled workers.

Turning to foreign direct investment and its effects on jobs, the speaker noted that the evidence showed that a large share of outward foreign direct investment was in industries with net job gains, while a small share came from industries with net job losses. This finding reinforced another point made earlier, namely that investment abroad and job creation at home tended to complement rather than substitute for each other.

Using France as an example, the speaker noted that the data also showed that the largest share of foreign direct investment by French companies went to other EU countries, then to other OECD countries, and finally to the rest of the world. The same pattern was true for other European countries. This tended to suggest that European companies were not investing abroad primarily to take advantage of lower wages. The speaker also cautioned that it was in any case increasingly dangerous for Europeans to make the argument that Europe was threatened by low-wage competition from overseas. There were countries in the EU, e.g., Portugal, where prevailing wages were now lower than in Taiwan and some other Asian countries.
Another speaker agreed that trade was on balance beneficial for job creation, but cautioned that there might be problems caused in some sectors by certain kinds of trade. It was clear that in the developed world there was a widening gap between high- and low-skilled labor, and attempts to explain the widening of this gap had to take account of foreign trade. Using 1990 figures, the speaker noted that trade within the OECD was roughly balanced, and the employment effects roughly nil. In trade between OECD countries and the rest of the world, however, the former had a surplus of approximately $70 billion. The employment content of imports was larger than for exports, however, so net employment gains from OECD trade with non-OECD countries were smaller than the trade statistics would imply. The jobs affected by imports and exports were in different sectors with very different skill compositions. The problem was not with the employment effects of trade, but with the fact that OECD countries did not have adequate means for restructuring in response to economic change and for coping with the distributional effects of trade. It was simply not possible to have the gains from trade without also undergoing the restructuring that trade entailed; the two were opposite sides of the same coin, and this needed to be recognized. Social protection systems in Europe currently had the effect of shielding workers from the worst effects of restructuring induced by foreign trade. As these social protection systems were weakened in response to fiscal and political pressures, he saw a danger of increased demands for trade protection. Maintenance of a strong system of social protection in his view therefore could help to keep markets open.

Another speaker took a somewhat different view of the relationship between social protection and international trade, and saw a growing north-south divide on this issue. In the industrialized countries the concept of free trade was increasingly being replaced by that of “fair trade,” and new rationales were being invoked to support protection against countries with lower social or ecological standards. In his view there was a real danger that “social dumping” and “eco-dumping” were becoming rationales to erect new protective barriers. The dispute between the United States and France over market access for U.S. movies and television shows was in effect a controversy over “cultural dumping.” Current discussions regarding the World Trade Organization and the future of the multilateral trade negotiations reflected the growing divide between north and south—and within the north—on these issues. In his view it was essential to meet the problem of domestic restructuring in response to international trade head on, and not to try to head off such restructuring by invoking new arguments for protection.
In the discussion that followed, several speakers expressed unease with the conclusions drawn regarding the positive effects on employment of foreign trade and investment. One noted that proponents of free trade tended to be very dogmatic, and to gloss over the social implications of economic developments. In his view, there was a real danger that jobs would migrate from the developed to the developing world and that wages would fall in the developed world. The alternative was a mass migration of workers from the non-Western to the Western world. In either case, there was a real danger that society could become ungovernable, and a real need for imaginative policies to head off this danger.

In reply, several speakers strongly defended the need to maintain a free trade regime. One suggested that for the foreseeable future foreign trade might be the only large source of welfare gains for developed economies. Another noted that there was nothing unique about foreign trade and the internal restructuring and adjustment it entailed. The same situation occurred when a new technology was invented or a new competitive factor appeared on the scene. Just as it was pointless and counterproductive to try to stop rather than adjust to technological change, it made no sense to impede international trade.

Turning to the issue of trade between developed and developing countries, one speaker argued that the danger of “social dumping” being used as a rationale for sweeping protectionist measures was being overstated. There was no intention on the part of the trade unions or of governments to erect protectionist barriers through the invocation of social standards. Rather, there was justifiable concern about certain basic, minimal standards, e.g., the right to form trade unions. Another speaker suggested that the cause and effect relationship between economic well-being and social standards needed to be reexamined. He suggested that in the Western world, social standards had risen as wealth and incomes had increased, and as increasingly affluent and educated societies would no longer tolerate certain social and labor conditions as the price of economic progress. In his view the same process would occur in the developing countries today; it did not need to be enforced by outside pressures.

Another speaker pointed out that for the OECD countries, protectionist policies against lower wage developing countries would be counterproductive and especially ill-timed. For the first time in history, the developing countries were serving as the locomotive pulling the world economy out of recession. The developed countries had large trade surpluses with the reviving economies of Latin America and elsewhere, in part because these countries had come to accept that economic liberalization was vital to their economic future.
Session 5: Labor Markets and Social Stability

The opening speaker began by characterizing the European labor market situation as dramatic and still deteriorating. At the end of 1990, unemployment was at 8.3%. At the end of 1993 unemployment reached 10.4%. It was quite clear that the reasons for high unemployment were more than cyclical.

The speaker also noted important regional and demographic variations. Unemployment varies greatly between countries and regions, ranging from 21.3% in Spain to 2.4% in Luxembourg. In France, it varied from 6.4% in Alsace to 13.7% in Languedoc-Roussillon. In some regions of Spain it went as high as 30%.

The unemployment of women in the EU is three points higher than that of men. The structural disadvantage for women was even larger than this figure suggested, as the employment rate in the European Union (60%) is significantly lower than the employment rate in the United States (around 70%) and Japan (75%).

The situation was especially acute for young people, whose unemployment rate has risen to a level of almost 18%. In two-thirds of the Spanish regions, in the south of Italy, and in Hainaut in Belgium the unemployment of young people stands at over 30%. More than a third of the young unemployed have never worked.

The speaker observed that this situation in the labor market was a threat to social stability and even more, a potential threat to political stability. He went on to suggest a plan for overcoming this situation. While endorsing the goals of a single market and economic and monetary union, the speaker stated that the current recession could not be overcome without a major contribution from the social partners and from social and economic interest groups in general. The social partners needed to be involved in finding solutions to the problems of inflexibility in the market in order to facilitate access to employment.

The speaker described recent reports of the Economic and Social Committee of the European Communities which had focused on the need for consensus among the social partners. The Committee had made four general recommendations:

- Economic and social development can be strengthened by introducing more effective social integration policies rather than by dismantling social protection systems.
• A more flexible and rapid response to cyclical economic developments and international trends can be achieved by strengthening the dialogue between the social partners rather than just by deregulating the labor market.

• Production quality can be improved and the competitiveness of companies, and of the economy as a whole, enhanced by implementing an educational and vocational training policy that is more in tune with the needs of the economy and of workers' personal development—by ensuring that workers are informed, involved, and consulted at the appropriate levels, rather than by following a policy of low wages and low qualifications.

• Unemployment can be reduced by boosting solidarity and by creating the necessary conditions to respond to growing needs resulting from demographic and social changes, rather than through the individualism and selfishness of the "every man for himself" mentality.

In sum, the speaker argued that while there was a temptation in the present crisis to take risks without thinking about the future, it was even more necessary that the conditions be created to enhance the European social model, showing that it holds within it the potential needed if Europe is successfully to meet the challenges of the future. Solving the problems of the labor market is not simply a question of labor market policy; it is a question of designing a new type of European society, built on European traditions, and with the active participation of Europe's citizens.

The speaker concluded by discussing four major challenges facing European society:

• To close the gap between the personal aspirations of citizens and the socio-economic structure.

• To bridge the gap between the socio-economic structure and politics.

• To develop the "European Union of peoples, societies, nations" into a single European society, without jeopardizing Europe's rich social and cultural traditions.

• To find a new role for Europe in the world.

The speaker discussed the first challenge facing European society—bridging the gap between personal aspirations and the socio-economic structure—by means of an illustration. He noted that in personal relationships, the equal division of responsibilities between men and women is a much more accepted principle than in the labor market. Whereas men are now, broadly speaking, ready to assume family and household responsibilities, the labor market does not provide the
same opportunities for equal access and for the sharing of jobs. Neither working hours, nor social security provisions, nor holiday entitlements are actually compatible with this new societal development. It is imperative that the social dialogue in particular find new and imaginative solutions to this problem.

The second challenge—bridging the gap between socio-economic structures and politics—was apparent in the election results in some countries. Electoral results seemed to suggest that societal values have changed quite substantially, but that politics so far has not been able to transform these values into new political orientations. Developing a more responsive policy to deal with social exclusion and unemployment had become a profound political necessity.

The third challenge was to develop a single European society based on economic and social cohesion on a European scale. Labor market problems in one country could not be solved to the detriment of other countries in the Union. Unfortunately, however, the European public and the political class were still thinking in national rather than European terms.

The fourth challenge was to find a new role for Europe in the world. This required dialogue on socio-economic issues between East and West, within the Mediterranean world, with Latin America, and with the African, Caribbean, and Pacific (ACP) countries.

The speaker concluded by putting forward a personal proposal for a more concerted dialogue on employment issues involving ECOSOC, the OECD, the ILO, and regional economic and social committees in other parts of the world. The object of this dialogue would be to deal, on a broad international basis, with the problems of unemployment, under-employment, social exclusion, and poverty.

The second speaker focused on the situation in the United States. He noted that there had been a major change in the circumstances of the lowest-income quarter of the American workforce. Between 1947 and 1973 the income of workers in this group increased roughly in line with that of other workers—about 3% a year. Since 1973, however, it has fallen by about 0.7% a year.

The situation of American blacks was particularly acute. Today more than half of the black children in America live in poverty. This in part has been caused by the disappearance of rural agricultural jobs in the American South and by the disruptive effects on the black family of migration. There had been three waves of black migration from the South to the North, and from agricultural to industrial employment: in and immediately after World War I, in World War II, and from the 1950s onward. Migrants in the first two waves were able to find
jobs and did reasonably well economically, whereas those in the third wave did less well.

In assessing government programs to address long-term unemployment for the poor, the speaker noted that direct government job creation for low income people does not work very well. What was needed instead was a more targeted approach aimed at building labor market institutions and at establishing better links between education and employment. In general, Europe had paid greater attention than the United States to labor market institutions, but there were new developments underway in this area in the United States. The speaker reported on the results of the 1982 “Boston compact” between the Boston school system and the local business community. Under this agreement, Boston businesses agreed to create after-school, summer, and post-graduation jobs for high school students, while the schools agreed to work on improving the basic skills of students and on orienting them toward employment (for example, career specialists were placed in each school to coach students on issues related to employment).

The results of the program had been highly positive, particularly for black students. Under the program, employers had to be willing to look at students that they would not normally interview, while students who might not otherwise seek jobs in certain parts of the city or with certain kinds of businesses were encouraged not to give up. The program had been useful in breaking down stereotypes on both sides, and had shown that institutional arrangements matter. The speaker noted that the Boston program was just one of many around the country in which businesses and educators sat down together and tried to build a relationship between the ultimate suppliers and demanders of trained labor.

A third speaker returned to the theme of employment in Europe. He took issue with what he saw as a tendency on the part of some conference participants to overstate the generosity of European unemployment compensation systems and their effect in encouraging workers to stay unemployed. Unemployment in Europe was not a pleasant choice for those it affected. The speaker also argued that solving the unemployment problem could not be done through undermining Europe’s social cohesion. In the last fifteen years, in fact, there had been great stress on wage moderation, and unemployment had been neglected as a policy problem while inflation was emphasized. More of the same policies was not the solution.

In looking to possible solutions, the speaker stressed the following six points:
• It was necessary to clarify some of the confused talk about the need for "flexibility" in the labor market. If workers were going to have the confidence to accept change, they had to know what "flexibility" meant (e.g., with regard to working hours, conditions of employment, and so forth).

• All aspects of economic policy needed to be integrated to promote employment.

• Approaches to education and training were still too elitist, and more effort needed to be devoted to developing a mass system of linkages between schools and employment.

• There needed to be better integration of employment and social policies, as the workings of the social safety net clearly affected and were affected by the labor market.

• It was necessary to restore value and the sense of self-worth attached to certain low-skill jobs that had been too much devalued in Europe.

• Efforts had to be made to rebuild social cohesiveness in Europe through the reform of institutions.

Following this interaction, a member of the European business community reiterated a point made earlier, namely that discussion of labor markets and unemployment had to include considerations of international competition. Money had to be earned before it could be spent. He stated that retraining should be used as a device to motivate employees, and noted that many retraining systems in Europe were plagued with bureaucracy and could be streamlined.

Another business representative observed that the levels of retraining provided to displaced workers varied widely from country to country in Europe, and that in those countries where retraining was less available the company offered retraining and help in getting into the labor market. Often small and medium-sized firms were the best sources of re-employment.

Several speakers reiterated the point that "flexibility" needed to be better defined. Like many of the terms found in the Commission white paper, it had been used before. What was important now was to give substance to the words through action. Another speaker commented on the difficulty, notwithstanding the success of the Boston compact and other ventures, of getting the educational system to support the requirements of the labor market. Educators had their own culture and their own bureaucratic imperatives, and did not always see performance in the labor market as their main outcome measure. They were also
interested in producing good citizens and tended to have their own social agendas.

Finally, one participant commented on the interrelationship between unemployment, immigration, and the rise of right-wing parties which he noted had been absent from the discussion. The resentments and frustrations of the unemployed were now manifesting themselves in the form of hatred of immigrants, and this was posing a threat to social stability.
Session 6: Conclusions and Policy Recommendations

The concluding session of the conference was a panel discussion among speakers from Germany, the Netherlands, Spain, the United Kingdom, the European Commission, and the United States, followed by general discussion and commentary.

The first speaker, from Germany, began by again stressing the importance of the need to reduce unemployment in Europe. Over the last twenty-five years, the rate of unemployment at the peak of each business cycle has been higher than at the comparable point in the previous cycle. There was now a danger that the current recovery would result in a still higher rate of structural unemployment. In addition, he noted that there was considerable hidden unemployment in Europe in the form of involuntary early retirement, short-time working schemes, and so forth.

Turning to the underlying causes of the increases in unemployment, the speaker suggested that they included the very high share of government in national economic activity (52% of GDP in Germany, for example) and the resulting tax burden and pressure on the private sector, high social security payments and payroll taxes, and the lack of competition in labor markets. The latter tended to be monopolized by the trade unions and employer associations, to the detriment of dynamism in the economy. Wages were determined not by supply and demand, but through a process of centralized bargaining. In this process, moreover, there was no advocate for the unemployed, who were effectively outsiders confronting an insider-dominated system. One of the effects of the German labor market was the rapid near-convergence of wages in Eastern Germany to Western German levels following reunification. The West German trade unions seemed to fear competition from lower paid workers in the East, and thus pressed for higher wages in Eastern Germany, with high unemployment the inevitable result (given the levels of productivity in East German industry).

The speaker further noted that companies in Germany recognized that they had a cost problem and a competitiveness problem. They were moving to address this problem through restructuring, the improvement of products, and reducing labor costs. Strategies to reduce labor costs included pressing for restraint in wage negotiations, reducing staff through lay-offs, and outsourcing to suppliers in lower-wage countries. He was convinced, on the basis of his discussions with German business leaders, that German industry was well on its way toward solving its competitiveness problems at the firm level.
From a national perspective, however, improving competitiveness at the firm level was not a sufficient response to the problem of unemployment. To solve this problem, government and society had to address the question of the competitiveness of the German worker and of Germany as a location for investment by national and international capital. The same is true for other countries. In his view, it was necessary to focus on the competitiveness of national labor forces—not just of companies. Having the right conceptual framework was especially important now that economies were picking up and there would be a natural tendency to relax efforts to address the unemployment issue.

Workers needed to accept that wage growth should lag growth in productivity. By not appropriating the full gains of increases in productivity, workers with jobs were making the employment of new workers possible—the movement of the current outsiders into the ranks of those inside. In addition to wage restraint, the speaker identified several other measures that would help to cut unemployment. They included various forms of support for the establishment of small enterprises, deregulation, improvement in infrastructure, stabilization in the increase of the cost of the social security system, and steps to open up West European markets to products from Central and Eastern Europe. This last step would intensify pressures for adjustment on the West European labor market, and thus have long-term beneficial effects, as well as positive implications for the former Communist countries themselves.

The second member of the panel spoke from a Commission perspective, returning to the themes in the white paper. He emphasized that there was no miracle cure for unemployment, and that for this reason there was no brilliant new solution put forward in the white paper. The approach was eclectic, and called for persistent efforts by different actors in different areas. In his view, there was no reason to assume that Europe was condemned to economic misery. While there had been much pessimism in recent years about Europe’s growth prospects, there was no reason to believe that Europe could not again achieve the rates of growth that it had enjoyed in the late 1980s.

To achieve these rates, it needed to accomplish two intermediate objectives. First, it had to break free of the current unbalanced policy mix and the resulting overburdening of monetary policy. There had not been enough structural fiscal adjustment in recent years, but this is now essential. Some fiscal consolidation is underway and should become increasingly apparent as the recession ends. Recent wage settlements had been reasonable, and would also create less of a burden for monetary policy.
Second, Europe needs to improve its underlying growth potential. This will occur in part through fiscal consolidation. Private savings have been remarkably stable in Europe, and cuts in public sector deficits would thus free up savings for investment. To get satisfactory levels of savings, it was desirable that budget deficits be cut to 1% of GDP, lower even than the Maastricht targets. In addition, as the white paper pointed out, much could be done to improve endogenous growth factors and increase productivity in the European economy. Sound and sustainable growth is required and can be achieved.

A third member of the panel, from the United Kingdom, took a skeptical view of many of the points made earlier in the conference, and warned that it was important not to concentrate on yesterday’s problem. In his view, unemployment was the result of governments losing control of macroeconomic policy and failing to check inflation. This had led to high levels of unemployment in the 1980s. Inflation now was under control, and stable, low interest rates meant that sufficient aggregate demand was also not a problem. The macroeconomic conditions for full employment were in place. Under these conditions, it was, in his view, most important to focus on microeconomic issues and on the social aspects of economic questions. Labor market problems were concentrated among particular groups, e.g., male manual workers, especially among ethnic minority groups, and solutions had to target these groups. Social problems such as the increase in the number of single parent households tended to exacerbate economic problems. There had to be greater focus on human capital formation at the lowest end of the labor pool, even though this would require public expenditure at a time when such expenditure as a share of GDP was already too large.

The fourth member of the panel, from the Netherlands, identified several factors that he believed negatively influenced economic performance and job creation in virtually all European economies to one degree or another. They included generous social security benefits that reduced incentives to work, high tax and social security burdens, over-regulation of both labor and product markets, complicated decision-making and bargaining processes in the labor market, too few high-tech workers, and high wage costs in general. The Netherlands and Germany both had good apprenticeship systems, but the effectiveness of the Dutch system was undermined by the requirement that employers pay apprentices the minimum wage.

This and other inefficiencies and rigidities contributed to what might be called the new “Dutch disease”: the ratio of workers to those receiving some kind of benefit was approaching the one-to-one level. While it was often suggested that the relatively low number of strikes in the Netherlands attested to a basic social
stability, this was misleading. So many people were out of the labor force that workers who in other times or under other circumstances might be on strike were for the most part already at home.

The Netherlands and Europe in general needed to adjust to the globalization of the economy and increased competition, especially from Asia. In his view this required four sets of actions: (1) adoption of new process technologies, even if this meant short-term job losses, and the development of new products; (2) increased education, with emphasis on the primary and secondary levels and at the workplace; (3) general reduction of taxes; and (4) the lowering of unemployment benefits in ways that created stronger incentives to seek employment. With regard to taxation in general, the speaker was especially critical of proposals to shift the tax burden from payroll taxes to an energy tax. Just reshuffling taxes in the EU would not work; there had to be a general reduction in taxes, which in turn would require cuts in government expenditures in the social welfare area.

The final speaker on the panel discussed recent developments in Spain. He noted that Spain has an unemployment rate of 24%—3.6 million unemployed out of a workforce of 15.4 million. The problem is even more acute among people under age 25. Despite the severity of the unemployment problem, Spain has managed to avoid the social conflicts and political instability that might otherwise have been expected. The reasons for this would appear to be the high percentage of the unemployed receiving unemployment insurance (64% in all), the existence of a strong, traditional family structure that provides aid to the unemployed, and the employment opportunities offered by the large black market sector, the size of which is estimated at 29% of the official economy. Per capita GDP in Spain is only 69.5% of the EU average, so there is clearly much scope for economic growth that would cut the unemployment rate.

The Spanish government has instituted a number of reforms and policies aimed at tackling the unemployment problem. Most of the microeconomic measures recommended in the Commission white paper are being implemented. The government also introduced a reform of the labor market that encountered strong resistance in the form of a nationwide general strike. The reforms will result in a more flexible labor market that allows for more temporary work and more labor mobility. The state monopoly in the employment agency sector is being eliminated, allowing non-profit organizations and companies to offer services to employees and employers. Apprenticeship programs are also being strengthened, and new mechanisms have been created to involve workers in workplace decisions. There are good reasons to expect that these reforms, along with the overall pickup in economic activity, will help to cut unemployment in
the coming years. Nonetheless, there are still open questions. A pattern of jobless growth persists in many sectors. Spain is also used to consensus in labor relations involving the trade unions, and it remains unclear how strongly they will fight to block the implementation of reforms that they oppose.

Following the opening statements by members of the panel, a number of participants made additional remarks on future policy directions for Europe and North America. Several speakers remained unconvinced that current macroeconomic policy was as unproblematic as it had been characterized by members of the panel. A French participant argued that Europe in general and France in particular do have macroeconomic problems. He stated that in France real interest rates were at 4.5%, and this was clearly a macroeconomic matter.

The high level of interest rates resulted from the (in his view) erroneous decision to use monetary policy to target exchange rates—namely with the D-mark—rather than to target inflation as such. Turning to structural reforms, the speaker noted that this year alone France had tried to institute three major reforms: profit sharing, work sharing, and a new training system for youth that provided for reduced entry-level wages. All these attempts had run into massive political opposition and ultimately had failed. The lesson seemed to be that structural reforms proposed from the center and from the top down had lower chances of success than more decentralized efforts that allowed for more local initiative. It might have been wiser, for example, to have allowed firms more latitude in devising their own profit-sharing schemes.

In concluding, the speaker suggested that a middle way needed to be found between the European and U.S. systems. Firms in Europe did not have to be burdened by paying wages that were intended to provide minimum income levels but that were above rates of marginal productivity. On the other hand, workers should not have to fear declining incomes. The solution might be to lower wages but to compensate affected workers through direct social benefits.

Another speaker supported the point that macroeconomic policies remained a source of difficulty. He stressed that unemployment in Europe was by no means all structural, and that Europe needed increased demand along with solutions to structural problems. He also questioned assertions that reducing social benefits would encourage the unemployed to seek jobs or that reduced tax burdens would lead to enhanced growth. This approach had been tried in the United States in the 1980s, and had not been successful. Commenting on the issue of macroeconomic versus microeconomic factors, a German participant noted that in Eastern Germany there was an added demand stimulus in the form of a DM 150 billion annual inflow from the rest of Germany, and yet unemployment was
still up. This suggested that there were structural factors that could not be solved by creating added demand. Jobs could not be created if employers were required to pay more than companies could afford.

Addressing the question of decentralization and the utility of local versus national solutions, one speaker suggested that one of the reasons why it may be so difficult for us to address the problem of unemployment relates to the question of community—the “who is us” question. Effective national approaches to unemployment will not be possible if there is not a shared sense in the community that citizens should take responsibility for ensuring that their fellow citizens have jobs. It might be easier to work on a local and regional level where, as the Boston compact example illustrated, it was easier to bring together businesses, schools, and workers under the assumption that their fates were linked and that each had to take responsibility for the other. Definitions of what constituted the relevant community were changing, and this was affecting the context in which policy was made.

In concluding, the chairman of the session thanked the participants for attending the conference and for the lively discussion that had taken place. He noted that while there had been many differences among the participants, consensus had emerged on a number of themes:

- Europe and North America share a common problem—creating more good jobs for people at the low end of the wage scale.
- Globalization of markets and technological change are causing a profound revolution in labor markets that needs to be understood and factored into policymaking.
- Regional and local experimentation is useful and necessary.
- Flexibility and adjustment are imprecise terms that need to be further defined.
- On both sides of the Atlantic, large companies are not going to be net job providers; the engine of growth will be small and medium-sized firms.
- Structural changes will be much easier to make in the context of economic growth, and for this reason Europe and North America should strive, through appropriate macroeconomic policies, to achieve sustained economic growth at levels considerably higher than those seen in recent years.

The chairman noted that there was much to be gained and learned from exchanges of views on social and economic issues involving experts and policymakers from Europe and North America. Such exchanges would help to
develop a community that spoke a common language and that viewed problems through similar perspectives—such as had developed in the military and security sphere during the long decades of the cold war. The conference had been a useful step in helping to foster such exchange and to further the emergence of such a transatlantic community.
A Message from Secretary of Labor Robert Reich to the Growth and Employment in Europe and North America Conference, April 22, 1994

I want to thank you for inviting me to participate in your conference on Growth and Employment in Europe and North America. I'm sorry I cannot be with you in Brussels but your topic is so important that I wanted to share with you some of my thoughts. I want to thank my friend, Ambassador Stuart Eizenstat, for giving me the opportunity to be with you. I thank RAND, the United States Mission to the European Community, and the European Commission for sponsoring this event.

Last month, labor and finance ministers of the world's industrial powers met in the American city of Detroit, Michigan, for a conference to discuss a problem all our nations share. Throughout the industrialized world, no country is creating enough good jobs for all its workers. In America, the jobs problem shows up primarily as the quality of jobs, not quantity. The United States has added 2.3 million private sector jobs since January 1993 and that's good. That's more than twice as many as in the previous four years combined.

But beyond the 8.5 million Americans who are still unemployed, about 5 million part-time workers would prefer full-time work and many millions more Americans are stuck in temporary jobs or are simply outside the labor market altogether. Too few American jobs any longer provide what might be called a "middle class" standard of living. While the college educated in the United States have watched their earnings rise slightly over the past 15 years (adjusted for inflation), the rest of the work force—and that is about 75% of the total American work force—has seen their earnings (adjusted for inflation), actually decline. Today, nearly one in five full-time working Americans is not earning enough to lift a family of four above the poverty line.

In European Union countries, the problem shows up not as quality but as quantity. In industrial nations like Germany and France, the earnings gap between high wage workers has not grown nearly as much or as quickly as it has in the United States. But in these nations and many others, you've suffered from chronically high unemployment. In the European Community, I don't have to tell you that the unemployment rate is close to 11% and it has not dropped below 8% in ten years. In Europe over the past two decades, wages have risen as much
as 50% and that's good but new jobs have been created at only one-third the rate of the United States.

These conditions prompted the question that was often at the heart of our conference last month in Detroit. The question is this: Must advanced industrial nations now make a diabolical choice between two alternatives? Neither of which is good at all. In fact, they are both quite bad. On the one hand you have more jobs but they are not very good jobs—in fact most of them are worse in terms of wages. Or, on the other hand, better jobs, good jobs, but very few of them, with a very thick and growing social safety net.

I don't think the choice has to be these two poles. The more jobs versus good jobs dilemma is a false choice. I think it is one that fundamentally misreads changes that have reconfigured the world economy. Industrialized nations are all grappling with different manifestations of the same basic trend. It's a relative shift in labor demand against less educated, less skilled workers and those doing routine tasks and toward workers with what might be called problem solving skills.

Now in the past decade, advanced economies have undergone change as major and epochal as when the industrial revolution swept aside the agricultural economy. For example, the rise of Asian nations coupled with scientific breakthroughs in aluminum and plastic have drastically shrunk the American steel industry—once the model of our country's industrial might. Between 1973 and 1990, U.S. steel production dropped 38% and one-quarter million jobs disappeared. The laws of mass production and economies of scale have given way to what might be called “Moore’s Law,” named after Gordon Moore, a founder of the computer company, INTEL. Now Moore’s Law states that every 18 months microprocessors double in power and thus halve in cost. Now this development has placed massive computing power on individual desks and landed computer chips in items as mundane as toasters. And now, like similar other trends in other industries, Moore’s Law implies an economic order that is convulsed by permanent revolution. This is a major structural change.

Global competition and technological change are pushing companies in Europe and the United States to abandon the old-fashioned, high volume, standardized stable mass production in favor of products and services that are more and more tailored to the needs of customers—different groups of customers. When customized computer chips and specialized banking and insurance services are the new sources of industrial wealth, earning a living depends less on the strength of one’s back and more on the agility of one’s mind: and hence, you get that structural shift in favor of more and more skilled workers and against
workers that simply don’t have the skills, don’t have the ability to problem solve. With the right policies, advanced nations can respond to this shift toward skill-centered production and avoid this supposedly inevitable trade-off between more jobs and better jobs.

There is no single formula to fit every nation’s experience. The many talented and thoughtful people gathered for your conference will obviously have their own views. Many of you have thought about this issue for many, many years but to my mind, any strategy requires at least three ingredients. The first ingredient has to do with investment in human capital. In a world where information and financial capital wash easily across national borders, a nation’s lone sustainable comparative advantage comes from the one resource that remains more or less fixed within that nation’s boundaries and those are its people—its skills, its intelligence, the ability of its people to work together constructively.

The cultures and policies of other industrialized nations often place a great emphasis on human capital and often more than in the United States in fact. France and Germany, for instance, as a share of gross domestic product spend about three times as much as the United States on labor market programs. In my view, they do a much better job of extending education and training throughout their populations, bringing everybody up to a high minimum standard of competence. For the United States, stepped up investment in human capital requires early childhood learning followed by elementary and secondary education that meets very high standards. We don’t have that yet. As young citizens become adults, building human capital requires an effective school-to-work transition system to move young people smoothly from formal education to the world of work if they are not going on to university. This is a direction I’m proud to say that the United States is now heading in. Expanding college opportunity as we have done through direct student loans is also essential and I am glad to report that the Clinton Administration is moving in this direction as well.

But investment cannot end when a citizen exits the classroom door. Continuous education—life-long learning and training must be the norm and not the exception. And this is not the job of government alone. Private companies have to invest in their workers, especially their front-line workers—people who are right there, blue collar workers. They have to build up their skills, develop their abilities. Business, government, and individuals have to work together to establish a system and an ethic of life-long learning. And here, too, the Clinton Administration is doing a lot of work—working with companies trying to
develop that kind of commitment which many companies in Europe do already have.

The second ingredient, in addition to investing in human capital, is a dynamic labor market. Investment, as the Europeans are discovering, is not enough. Survival in the modern economic order also requires dynamism, resilience. You have to have a labor market that is very flexible. Employers and workers must be allowed a certain measure of freedom in setting the wages and terms of employment. Governments must set minimum floors of decency, of course. The low road of unfair wages and unsafe working conditions doesn’t lead to long-term competitive advantage. But rigid work rules, very rigid work rules, very rigid job classifications, are not the answer either.

Now sometimes when I talk to European ministers about flexibility, they think flexibility means simply the freedom of employers to fire workers, sometimes without notice, or to reduce wages. That is not what I mean by flexibility. What I mean by flexibility is giving workers the ability to take on many different kinds of jobs, giving employers the ability to move workers from job to job, and also giving workers, as I said, the skills to get all kinds of different kinds of employment. The links between citizens and the working world must be strong but they have to be supple and flexible. Workers must be able to move easily from one job to another—whether to a new job in a different city or a new position in the same company. Many of America’s best companies have responded to the new premium on flexibility by instituting workplace policies that essentially flatten the hierarchy and empower workers to take on more and more responsibility.

Now on this measure with regard to flexibility, I think the United States frankly often does better than other nations, than its economic partners—in large part, I suppose, because our culture and policies have always prized moving, adaptability. Americans are forever on the move. And here I believe just as the United States has a lot to learn from the Europeans about investing in human capital, Europeans may be able to learn from us about an adaptable and dynamic labor market. But we here in America could do much more. The U.S. unemployment insurance system was built decades ago to sustain workers during what were usually temporary periods of unemployment. We even had a word for it. We called workers who had lost their jobs on “layoff,” implying that they would get back “on” the job when the unemployment period ended, usually when the cyclical downturn started turning up. But in 1993 in the midst of an economic recovery, more than three out of every four American job losers—people who had lost their jobs during the recession—actually were not getting their old jobs back again. We have the highest rate of permanent job loss since
we first started collecting statistics. Unlike the layoff economy of years ago, the old jobs simply are not coming back.

Last month, President Clinton introduced the Re-employment Act of 1994, which will begin to turn America's unemployment insurance system into a re-employment system. Our plan will allow any unemployed worker who wants help to get help. It will offer displaced workers job counseling, job search assistance, information about available jobs and, if necessary, new training. It's an effort to respond to the dynamism and change in which growth happens, on which growth depends and to help Americans get the new jobs and the good new jobs they need.

I've mentioned investment in human capital. I've mentioned dynamic labor market. The third and final ingredient in the strategy is a social safety net that both affirms and encourages work. No industrial nation has the mix quite right. Generous disability pay and long-term unemployment benefits undeniably make life better for many Europeans and also people in the United States, but the danger is that the social safety net doesn't do enough to equip people to respond to the volatility of the work economy. In Germany, for example, more than 45% of the unemployed have been jobless for more than a year. The safety net catches these workers but there they remain. Similarly, America's welfare system has to become a work center system with policies that make work pay, that provide access to childcare, health care, and job training—that make it easy for people to get off welfare, off the safety net, off the dole, and in fact, encourage them to do so. We've made progress in this area by significantly expanding what is called the earned income tax credit and that basically gives people incentives for getting off welfare. It means that even if they are not earning very much at work, the government gives them, in essence, a wage supplement. And this reform plan, the welfare reform plan, which includes the earned income tax credit, is going to be presented very soon. We already have the earned income tax credit. The entire welfare reform plan is going to be presented very soon here.

Human capital investment number one, the labor market that fosters adaptability number two, and safety nets that serve as springboards to jobs rather than simply as places where people spend many many years without work—these three remedies for solving our common economic problems will not take hold obviously without the proper fiscal and monetary policies that surround them. And that was one of the other messages from the G-7 Jobs Conference. Structural reforms of labor and social programs will be most successful if they are supported by sound macroeconomic policies that promote growth. Nations can produce all the highly trained, well-educated workers they want but it will do
little good unless the private sector is operating in an environment that is generating new jobs.

Just as the G-7 Jobs Conference contributed to the global dialogue on how to make change work to our advantage, this conference today, the one that you are at, can do the same. The nations of Europe and North America should not have to choose between more jobs and better jobs and I don’t believe they have to. I think there is that third alternative that I outlined. We must simply recognize that human skills and adaptability are the fundamental source of wealth in advanced nations and that the fates of all our nations are necessarily intertwined. If we each do our part, we will all progress together. We have to keep markets open. I think that is an absolute requisite—free markets, trade, and investment because that way we all prosper. A rising tide lifts all of our boats. We learned this at the end of the Second World War. We have learned this again and again. These are the essences, this is the formula for success. It is not going to be exactly the same in every nation but these are the essential ingredients I am sure.

Again, I want to thank you for your time and again thank you, Ambassador Eizenstat, for giving me this opportunity. I want to extend best wishes to you all. Good luck in the rest of your conference.

Thank you.
Agenda of the Conference on Growth and Employment in Europe and North America: European and American Perspectives

Corsendonk Priory, Oud Turnhout, Belgium

April 21-23, 1994

Sponsored by the United States Mission to the European Union and the European Commission, Directorate-General for External Affairs

Organized by the RAND European-American Center for Policy Analysis and the German Institute for Economic Research (DIW)

Thursday, April 21

17:00  Arrival and conference registration
19:00  Cocktails
19:30  Dinner
      After Dinner Speech—Ambassador Stuart E. Eizenstat

Friday, April 22

Chairman: James A. Thomson, President, RAND

9:00-11:00  Session 1: Assessment of Current Economic Trends and Problems
11:15-13:00 Session 2: Policy Responses in Europe and the United States

Chairman: Lutz Hoffman, President, DIW

14:30-15:15  Session 2 (continued)
            Robert Reich, U.S. Secretary of Labor (videotaped presentation to the conference)
15:15-17:00  Session 3: Employment Effects of Privatization, Deregulation, and Technological Change
17:15-18:45  Session 4: Employment and International Trade and Investment
19:00       Cocktails
19:30       Dinner

Saturday, April 23

Chairman: John Van Oudenaren, Director, European-American Center for Policy Analysis

9:00-11:00  Session 5: Labor Markets and Social Stability
11:15-13:00 Session 6: Conclusions and Policy Recommendations
               Panel discussion—Chairman, Ambassador Stuart E. Eizenstat
List of Participants: Growth and Employment Conference


Michael Almond  Partner and Chairman, International Division, Parker, Poe, Adams and Bernstein, Charlotte, North Carolina

Bouke Beumer  Chairman, Economic and Monetary Affairs Committee, European Parliament, Strasbourg

Philipp Borinski  Project Manager, Bertelsmann-Council on Foreign Relations Project on Transatlantic Relations, University of Mainz

Barry Bosworth  Senior Fellow, The Brookings Institution, Washington, D.C.

Julien van den Broeck  Professor of Economics, University of Antwerp

Arthur Cordell  Special Advisor, Information Technology Policy, Industry Canada, Ottawa

Terry Cormier  Economics Counselor, Mission of Canada to the European Union, Brussels

Robert Dennis  Assistant Director, Macroeconomic Analysis Division, Congressional Budget Office, Washington, D.C.

Sophie Docclo  Economist, General Bank of Belgium, Brussels

André Dramais  Head of Division, Directorate for Surveillance of the Community Economy, Directorate General for Economic and Financial Affairs, European Commission, Brussels

Stephen M. Drezner  Senior Vice President for Planning and Special Programs, RAND, Santa Monica, California
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