

# How to reduce unemployment

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It is argued that action can be undertaken to reduce unemployment. However, such action needs to be taken on a basis of internationally coordinated policies to combat unemployment. Initially, there is a need for the EEC member countries to formulate a coherent programme to deal with this problem. Yet this is unlikely to be adequate. The intriguing idea is floated that the EEC countries can learn from the policies pursued in Japan. Ultimately, it is hoped that cooperation between the EEC and Japan can form the basis of an adventurous initiative to attack unemployment.

## I Present level of unemployment and unacceptable policies

The present level of unemployment in developed countries is unacceptable. For several years around 10% or more of the labour force has been unemployed. This is a considerable *waste of productive factors* and, more important even, a *psychological stress* as described so well by the Austrian psychologist, Linde Pelzmann (1985). The percentage of young people exposed to this stress is even higher and constitutes a threat to the psychological equilibrium of a whole generation. The policies followed by the conservative governments of the developed countries give too little weight to this threat. Clearly unemployment has also become a very weak point in western society from a human rights point of view, which western politicians, rightly, pay much attention to (cf. Dadzie, 1987).

Already in the 1930s unemployment constituted a tremendous problem to western countries and most of them did not find the political instruments to eliminate it. In 1936 the famous English economist J.M. Keynes published his book (Keynes, 1936) in which a short-term solution was offered, but it took several years before politicians began to understand how to apply his ideas.

The factual elimination of unemployment in western society was already taking place in Germany after Hitler came to power. By preparing for war he created employment for the increasing number of unemployed, first in Germany and, after the outbreak of the second world war, elsewhere. During the war and the period of reconstruction that followed, the unemployment

## 2 *How to reduce unemployment*

problem indeed disappeared. If war were the only stimulus to the elimination of unemployment, western society would be morally unacceptable. Anyhow, the invention of nuclear arms and the possibility of any war escalating into a nuclear war would block that stimulus. So what western society is in need of is an objective to create employment, nobler than war.

Unfortunately, most western governments today set themselves direct policy objectives other than the elimination of unemployment. Two direct goals seem to be equilibrium in public finance and equilibrium in the balance of payments of the nations for which they are responsible. Some additional objectives have started to catch their attention, such as a clean natural environment. The governments' hope is that a public finance equilibrium will 'restore confidence' and, as a consequence, raise private investment. Their additional hope is that as a consequence employment will rise. It is only in this indirect way that employment is part of their programme.

Of course, most employment in western mixed economies can only be influenced indirectly, that is, in a roundabout way. But there are less roundabout ways than those chosen. In the present essay an attempt will be made to identify a policy (or a set of policies) which has a more promising impact on employment.

### **II Policy instruments available and feasibility of their use**

In a mixed economy, that is a market economy with social security provisions, the volume of total employment depends on many other variables and the set of all variables ultimately depends on a considerable number of exogenous variables or data. Part of these data can be determined by public authorities and another part cannot: they are the result of processes other than public policy. One example among many is a process of technological research leading to a promising new technology. Another example is the process of atmospheric dynamics leading to the climatic conditions in some year of some nation, codetermining agricultural output. Let us discuss some of the data which may be used by public authorities in order to influence employment in a relatively direct way.

Employment is the volume aspect of the labour market, or rather the large number of partial labour markets in existence in any country. It is elementary economic logic to state that the *price aspect* of these markets constitutes a direct instrument to affect employment. It is also well-known that *wage and salary setting* works in two directions on employment: as a cost element and as a buying power element of those already employed. The positive impact on employment of a wage reduction is partly counteracted by the reduction in buying power of those already employed. The combined effect on employment, though positive, is modest. (For a classic text on these problems, see Marschak, 1930.) It is clearest in small open economies such as the Netherlands, but modest indeed for a worldwide application. Since trade unions

cannot easily explain to their members that a wage reduction helps to raise employment and government intervention in the labour market is not liked by large parts of the political community, I propose to look at other possible instruments.

A second rather direct instrument with which to raise employment is *total demand for goods and services* produced by the community under consideration. Total demand may be subdivided in various ways: private versus public demand, demand for consumer goods or for investment goods, and demand financed by current income as distinct from demand financed by money creation. The negative aspect of the latter category is the hoarding of part of current income. The most volatile demand for goods and services is investment demand. Private investment demand is believed by conservative politicians – as in office now, as well as in the 1930s – to be furthered by confidence in the future, which in turn is believed to be furthered by fiscal equilibrium. Keynes (1936) emphasized other determinants of private investment, including the rate of growth of production. A third determinant to be discussed below is the discovery of new technologies.

*Public investment* demand is probably the most direct instrument available and the one closest to war expenditure, which we disqualified earlier for obvious reasons. At present *public investment in environmental improvement* (or private required by new legislation) is popular and rightly so. Another category of public investment appropriate for raising employment is investment in infrastructure. This is particularly urgent for underdeveloped countries, and constitutes a much more attractive type of investment than military expenditure.

A third instrument of employment policy is the *regulation of working time*. It may take many different forms: the number of hours worked per day, the number of days in the working week, the number of weeks worked each year and the number of years worked by each employee. During the last century all these forms have changed. Working hours per day have been reduced from about 16 in the early nineteenth century to eight after the first world war. The normal working week has been reduced from six to five days. Paid holidays have been introduced in many countries, reducing the number of weeks worked per year from 52 to, in several countries, 48. Retirement age has been lowered. In addition, considerable numbers of part-time jobs have been created, partly because working women favour such jobs.

Many of these changes did not happen consciously in order to regulate the volume of employment, but they did make it possible to keep employed all those who wanted to work. With the present threat of lasting unemployment for part of the population, we are forced to apply this instrument more consciously. In order not to underutilize capital goods it should be combined as much as possible with an increase in their hours of operation. Among the various forms discussed, the one of years worked in one's life time is the most attractive. With the present quick development in technology an increasing

#### 4 *How to reduce unemployment*

need for retraining courses has developed, sometimes called permanent education. Legislation in this field may be the most attractive form of the organized regulation of employment opportunities.

The instrument of regulation of working time is unpopular in business circles, for partly understandable reasons. Its opponents, however, should not underestimate the devastating effect of permanent unemployment on part of the labour force. The avoidance of such a disaster is worth some organizational inconveniences.

The extent of the threatening unemployment depends on the expected development of technology. Labour-intensive new technology is, of course, less harmful than capital-intensive new technology. It seems, however, that today's new information technology is rather capital intensive.

*The long-term maintenance of equilibrium* of the various labour submarkets, once attained, requires flexibility, preferably on both the demand and the supply side. A well-known example of inflexibility is the maintenance of jobs no longer needed, such as firemen on steam engines, who had become superfluous after railway electrification. In these matters continental European trade unions, as a rule, have been more flexible than their British colleagues. Also Swedish trade unions accept the necessity of retraining in line with technological development as a condition for receiving unemployment benefits.

Before equilibrium can be maintained, however, first it has to be reached. This is now the first problem to be solved, that is, to offer employment which is sufficient to absorb today's unemployed, after the necessary retraining.

### III Levels of decision-making

Socioeconomic policy requires a continual flow of decisions by the authorities in charge of that policy. These decisions can be made at various levels in the hierarchy of authorities: national, provincial or state level, municipal level, etc. By far the largest number of decisions are made at national or lower levels and very few at supranational levels.

In order that economic policy is as effective as possible decisions should be made at a level, to be called the '*optimal*' level, which satisfies two conditions. The first condition is that all concerned should be represented, meaning that the external effects of the decisions are virtually negligible. The second condition is that the level should be as low as possible. A low level means a more democratic policy than a high level. In addition, the lower level will, as a rule, be better informed about details than higher levels. There may be cases where this does not apply; then the second condition need not be met.

*For a worldwide employment policy decisions at national levels are not optimal.* National decisions may very well have negative effects on neighbouring countries, as in the case of devaluation of the national currency, or national decisions taken by one ministry may harm the interests

for which other ministries are responsible. Additional public investment to create employment may affect the country's balance of payments unfavourably.

Attempts to solve the unemployment problem by public investment or by measures encouraging private investment should not be made by national policies. Discussions on such a policy should be organized at supranational levels, even though at these levels the institutions needed for the implementation of the policies are much too weak.

#### IV An international employment policy: EC and Japan

After having discussed the instruments to be used and the most effective level of decision-making at which to use them, we want to specify which group of countries should be approached for such an attack on unemployment. As a western European the supranational level I have access to is the European Community (EC). The initiative may be taken by either the European Commission or the European Parliament (EP). In the present unfinished structure of the EC the decision can only be taken by the Council of Ministers. This is a drawback, but still better than purely national decision-making.

The policy may become more effective if it were coordinated with Japanese policy. In Japan the so-called Mayekawa Report, submitted by the Mayekawa Commission on 14 May 1987, recommends to the Japanese government a number of measures which stimulate the demand for goods and services exerted by the Japanese population and its government. Some of the measures may be quoted from the summary given by the *Japan Economic Journal (Nihon Keizai Shimbun)*, 23 May 1987: 7. Among the recommendations are the quantitative improvement of housing, the redevelopment of urban areas, the spurring of domestic consumption, an increase in wage rates and a reduction in working hours, the abolition of tariffs on manufactures and the promotion of governmental imports of manufactured goods. In addition, Japanese direct overseas investments and official development assistance (ODA) should be raised. This point was recommended long ago (1969) by the member of the Mayekawa Commission, Dr Saburo Okita, then a member of the Pearson Commission, and in his own publications, now also partly available in English (Okita, 1980). In 1978 he proposed that Japan should devote 5% of its Gross National Product (GNP) to 'a comprehensive national security budget, allocating 1% to defence, 1% to international development assistance and 3% to scientific and technological research and development' (Okita, 1980: 259).

Some politicians and economists recently proposed that, as a stimulating measure 'a Marshall Plan for the third world' should be launched. The idea is excellent, but I think its name should be an 'Okita Plan for the third world'.

The elaboration of such a world project requires a serious preparation by

## 6 *How to reduce unemployment*

some institutions and persons involved in world economic models. One example is the Globus Research Group of the Science Center Berlin (Wissenschaftszentrum Berlin), which prepared a report by Bremer and Hughes (1987). Another example is the National Bureau of Economic Research which reported the macroeconomic interdependence of Japan and the United States (Ishii, McKibbin and Sachs, 1985). A third example is the Centre for Economic Policy Research (Sachs and McKibbin, 1985).

### V Concluding remarks

In this paper the urgency for an expansive policy to reduce unemployment was emphasized, together with the necessity to decide on such a policy at a supranational level instead of a national level in some European small or middle-sized nations. The level recommended is one of cooperation of the European Community and Japan. Because of the many pleas made during the last two decades by Dr Saburo Okita for a similar policy, it is proposed to formulate an 'Okita Plan for the third world'.

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