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Steve Charnovitz*

Strengthening the International Employment Regime

Although the idea of coordinating national employment policies goes back to the beginning of the 20th century, little progress has occurred in recent decades. The purpose of this article is to explain why such coordination is needed and how it should be accomplished.

Joblessness is a serious problem in many parts of the world. In the European Union, the unemployment rate for 1994 was 11.5%. In OECD countries, the average rate was 8.1%. In many developing countries, the situation is worse. Eastern Europe, the Caribbean, the Middle East and parts of Latin America all suffer from a poor utilization of human resources. Globally, over 120 million workers are unemployed and another 700 million are underemployed.

Worker redundancy has been a recurrent feature of industrialization. While change is inherent to the process of growth, there are high costs to lingering dislocation. Disemployed individuals are deprived of esteem and self-fulfilment.¹ Families and communities lose cohesiveness. Governments get overburdened and overextended in holding out social safety nets.

Although all countries face many of the same dilemmas, unemployment is generally treated as a domestic rather than an international issue. We often speak of France's unemployment problem, or Canada's, as if these were distinct phenomena. Even in the European Union, where the Maastricht Treaty now calls for the promotion of a "high level of employment", the concept of a European employment policy is still a distant goal.²

Many analysts seem to doubt the efficacy of an international policy on employment. Even a liberal economist like Paul Krugman has asserted that "The truth is that each of the major industrial countries is on its own as far as job creation is concerned."³ Those who want to encourage more international cooperation need to make a better case for it.

Policymakers need to start thinking about employment as an international issue. As economic globalization increases, labour markets in one country are more likely to be affected by policies in other countries.⁴ Expanded trade and investment flows can delimit the economic policies that governments are able to pursue. Of course, employment will also remain a national issue so long as countries retain border barriers to the movement of workers. It will be a long time before international rules are obtained against discrimination and quotas in immigration policy.

Although the idea of coordinating national employment policies goes back to the beginning of the 20th century, little progress has occurred in recent decades. In some ways, there has been retrogression. The purpose of this article is to explain why such coordination is needed and how it should be accomplished. I will propose new initiatives for international organizations.

Why Coordinate Employment Policy?

Although analysts often speak about "exporting" unemployment, it is important to remember that this is only a metaphor. The transmission of physical externalities across national borders (e.g., pollution) does present a problem of international (or regional) policy. But a market-based externality, whether bad

¹ Cf. Ecclesiastes 3.22: "So I saw that there is nothing better for a man than to enjoy his work, because that is his lot."

² See Treaty on European Union, article 2 and Agreement on Social Policy (1992), article 1. Cf. Treaty Establishing the European Coal and Steel Community (1951), article 2.

³ Steven Pearlstein and Frank Swoboda: Conflicting Goals on Jobs, Free Trade, in: Washington Post, July 10, 1993, p. F1.

⁴ John Hobson was one of the first analysts to perceive this point. See J.A. Hobson: Rationalisation and Unemployment, London 1930, p. 124.

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(e.g., inflation) or good (e.g., innovation), does not make coordinated policy responses absolutely necessary.

There are two types of inter-country coordination – “essential” and “mutually reinforcing”.⁵ Essential coordination is a response to situations of high trans-border externality where unilateral solutions will be unsuccessful. Preserving the ozone layer, fighting highly infectious disease, and avoiding exchange rate instability are examples. Mutually reinforcing coordination is a response to situations where countries can fruitfully act in a unilateral matter, but will achieve more if they act in concert. Liberalizing trade, controlling narcotics, and protecting intellectual property are examples.

Employment policy coordination is the latter type. Countries can take useful steps individually, but cooperation with other countries can lead to mutually beneficial outcomes. The value-added from employment policy coordination is both economic and political.

Economic value-added occurs when harmonized (or converging) policies yield better results than uncoordinated policies. For example, countries in recession may act together to stimulate their economies in order to boost aggregate demand. The avoidance of monetary actions (e.g., currency depreciation) that shift burdens to other countries is another reason for policy coordination.

Political value-added occurs when parallel actions in a group of countries make it easier for governments to adopt the proper policies (and avoid the improper policies). For example, governments can agree to regulate an occupational hazard in unison so that these actions do not undermine any country's competitive advantage. The international commitment provides cover to national politicians.

In determining the proper level for carrying out employment policy – viz., sub-national, national, or international – one should start by considering the type of policy involved. There are several components

of employment policy, including macro-economic factors, taxation, labour-management regulation, and employment services. There may be a few areas of employment policy where uniformity would be desirable (e.g., labour statistics). But for most areas, the shallower approach of coordination or cooperation will be sufficient. Coordination can be useful when national policies work at cross purposes. For example, governments can act together to stimulate demand. Cooperation can be useful when one government develops a more effective programme and others learn those techniques. Such transnational mimesis can be facilitated by an international regime as well as by regulatory competition.

Whereas diplomacy once centred upon “foreign” policy, nations now engage in negotiations over a wide range of “domestic” issues. Any division between international and internal issues is subject to rethinking from one decade to the next.⁶ In 1932, for example, US President Herbert Hoover vetoed a bill calling for an inter-governmental conference on trade on the grounds that “tariffs are solely a domestic question”.⁷ Today, Hoover's stance would seem hopelessly narrow-minded. Fifty years from now, some current assumptions about the interpenetration of domestic and international issues might look equally quaint.

Trade and Employment

Perhaps the best exemplification of the political value-added from policy coordination is the trade regime. Governments agree not to use trade policy (e.g., tariffs and quotas) in exchange for similar commitments by other governments. Trade “concessions” are carefully negotiated in order to maintain a balance among members. Countries tend not to offer too many concessions for fear of losing market share.

The typical approach to trade policy today is neo-mercantilist. But instead of trading for gold, as the original mercantilists did, the neo-mercantilists trade for jobs. As seen from this perspective, exports create jobs and imports destroy them, so a trade surplus is far superior to a deficit.⁸

During the recent trade debates in the United States, both sides have used “jobs” to support their preferred trade policy. For example, US Secretary of Commerce Ron Brown describes the Commerce department as a “job-creating machine” because of its export promotion and advocacy programs. But US presidential candidate Pat Buchanan worries that

⁵ Steve Charnovitz: Improving Environmental and Trade Governance, in: *International Environmental Affairs*, Vol. 7, No. 1, 1995, p. 63.

⁶ See Richard Blackhurst: The Twilight of Domestic Policies, in: *The World Economy*, Vol. 4, No. 4, 1981, p. 357.

⁷ Public Papers of the Presidents of the United States (Herbert Hoover), 1932-33, p. 207.

⁸ See Steve Charnovitz: Worker Adjustment: The Missing Ingredient in Trade Policy, in: *California Management Review*, Vol. 28, No. 2, 1986, p. 170.

international trade is destroying American jobs. Both camps are guilty of partial equilibrium analysis. Trade creates and destroys jobs, but has little connection to the overall employment level.

There are many virtues of open trade – such as increased competition, more freedom of choice, and more opportunities for specialization. Yet large scale job creation is not one of them. A trade surplus does not guarantee full employment (e.g., Mexico). While restraining imports can preserve jobs in some sectors, such a policy can wipe out jobs in other sectors. In addition, the social cost of saving a job by suppressing imports is often many times higher than the salary received by the worker.⁹

Even though trade cannot be used successfully to boost and sustain an increase in employment, there is still a strong political urge to do so. Thus, it would be useful to head off the utilization of indirect trade measures. Instead, policymakers should be encouraged to utilize direct measures that address the causes of unemployment. If employment policy is being properly managed, there will be no reason to conscript trade policy in the fight for job creation.

The use of trade policy as a substitute for ineffective employment policies has parallels in other realms. For example, badly designed policies on agriculture, food security, competition, and the global commons have all led to the use of trade policy in counterproductive ways. Indeed, almost every trade measure is driven by competitiveness, exchange rate or employment concerns, not by trade goals in the abstract.

In summary, freer trade does not necessarily lead to high employment. But high employment can make it easier for policymakers to achieve freer trade. In addition, by strengthening governments, high employment might also foster other types of international cooperation.

History of Employment Policy

Although international action on employment may seem too thin to merit designation as the “employment regime”, the long history of cooperative efforts justifies calling it as such. The first important

attempt to deal with unemployment as an international problem occurred in 1906 at the privately initiated Milan conference on unemployment. The conference recommended the creation of an international employment exchange. In 1910, a conference of 17 governments and several non-governmental organizations established the International Association for the Prevention of Unemployment to be located in Ghent. At its first general meeting, the Association recommended that government budgets provide reserves to counter economic depression.

The ILO was established in 1919 by the Treaty of Versailles. It was viewed as a way to promote social justice with the ultimate goal of maintaining peace. The ILO is probably the most idealistic international institution ever created. It is unique in many ways, most notably in the tripartite makeup of national delegations which include government, employer, and worker representatives.

In establishing the ILO, the founding nations put forward important pronouncements, such as that the “well-being – physical, moral and intellectual – of industrial wage-earners is of supreme *international* importance”.¹⁰ Given its origin as a “general principle” in a multilateral treaty, this statement may be viewed as soft international law. Thus, labour and employment policy are certified as international issues.

The ILO's preamble notes the objective of “the prevention of unemployment”. At its initial meeting, the ILO approved a draft treaty requiring countries to establish a system of “free” employment agencies and a recommendation that countries reserve public works projects for periods of unemployment.¹¹ The ILO also began to publish data and analysis which illuminated the problem of technological unemployment and postulated that business cycles were susceptible to management.¹²

Increasingly, unemployment came to be viewed as an international problem.¹³ In 1922, the first world economic conference suggested the desirability of direct measures to deal with unemployment. In 1935, a study group of the Royal Institute of International Affairs was suggesting that everyone begin “thinking internationally in terms of employment just as he is

⁹ “The Cost of U.S. Protection”, in: *International Economic Insights*, Vol. IV, No. 6, 1993, p. 50.

¹⁰ Treaty of Versailles, Article 427 (emphasis added).

¹¹ ILO Convention Concerning Unemployment, No. 2, 1919 and Unemployment Recommendation, 1919.

¹² The International Labour Code, Montreal, 1941, p. 568.

¹³ See, e.g., Watson Kirkconnell: *International Aspects of Unemployment*, London 1923; J. Morgan Rees: *Unemployment as an International Problem*, London 1926; Quincy Wright (ed.): *Unemployment as a World-Problem*, Chicago 1931.

learning to think internationally on purely political questions".¹⁴

The early policy initiatives on employment were generally quite constructive. For example, in 1927, the World Economic Conference called for "special attention to measures of a kind calculated to ensure the individual the best, the healthiest and the most worthy employment, such as vocational selection, guidance and training..."¹⁵ At the same time, Albert Thomas, the ILO's first director, was explaining that the policy imperative "is not that unemployment should be alleviated, compensated and cured, but rather that it should be foreseen, forestalled and prevented".¹⁶ In 1934, the ILO recommended that part of the money allocated to the relief of unemployment should be available for vocational and other training.

The idea that lower unemployment could facilitate trade liberalization was sometimes expressed in ILO debates and was probably best articulated by John Maynard Keynes in 1936 in his *General Theory*. Keynes explained that "if nations can learn to provide themselves with full employment by their domestic policy... there need be no important economic forces calculated to set the interest of one country against that of its neighbours".¹⁷ International trade could then be transformed into the "unimpeded exchange of goods and services in conditions of mutual advantage" rather than "a desperate expedient to maintain employment at home by forcing sales on foreign markets and restricting purchases".

Post-war Planning

As post-war planning began in the mid-1940s, there was considerable interest in employment issues. In 1943, the UN Conference on Food and Agriculture affirmed that governments should "promote the full and most advantageous employment of their own and all other people..."¹⁸ In 1944, the ILO approved the Declaration of Philadelphia which affirmed a "solemn obligation" to further programmes among the nations of the world which will achieve "full employment and the raising of standards of living".

The ILO also advocated a new international organization to facilitate the movement of capital and

stated that the "promotion of full employment" should be regarded as a primary objective.¹⁹ Later that year, the Bretton Woods monetary conference recommended efforts toward "harmonization of national policies of Member states designed to promote and maintain high levels of employment and progressively rising standards of living".²⁰ In 1945, the Inter-American Conference on Problems of War and Peace recommended that governments draw up detailed plans for public works "to prevent unemployment of human and material resources".²¹ Later that year, the UN Charter directed the UN and its members to promote "full employment".²²

Many analysts saw an important link between employment and trade policy. In their last major report, the Economic and Financial Committees of the League of Nations suggested that "the most hopeful method of securing progress would be a general conference to deal jointly with commercial policy and the international aspects of employment policy".²³ In his influential book *Full Employment in a Free Society*, William H. Beveridge observed that "All nations which wish to trade together for economic advancement with security must pursue full employment together".²⁴ The ILO also strongly supported a "freeing of the channels of international trade".²⁵

In 1946, the UN Economic and Social Council initiated preparatory meetings for a UN Conference on *Trade and Employment* (emphasis added) to design a multilateral trading system. These meetings produced the General Agreement on Tariffs and Trade (GATT) and later the Charter of the International Trade Organization (ITO). It is sometimes forgotten that the ITO Charter contained an entire chapter on "Employment and economic activity".²⁶ Article 2 began with the statement that "The Members recognize that the avoidance of unemployment is not of domestic concern alone, but is also a necessary

¹⁴ Unemployment. An International Problem, London 1935, p. 442.

¹⁵ League of Nations: The World Economic Conference, Final Report, 1927, p. 42.

¹⁶ Albert Thomas: International Social Policy, Geneva 1948, p. 116.

¹⁷ John Maynard Keynes: The General Theory of Employment, Interest, and Money, New York 1964, p. 382.

¹⁸ Final Act, Article XXIV (emphasis added).

¹⁹ ILO: Record of Proceedings, 1944, p. 529.

²⁰ U.N. Monetary and Financial Conference, Final Act and Related Documents, Washington 1944, p. 115.

²¹ Final Act, Article XLVII.

²² Charter of the United Nations, articles 55-56.

²³ Economic and Financial Committees: Commercial Policy in the Post-War World, Geneva 1945, p. 64.

²⁴ William H. Beveridge: Full Employment in a Free Society, New York 1945, p. 231.

²⁵ Cf. The International Labour Code, op. cit.

²⁶ See Michael Hart (ed.): Also Present at the Creation, Ottawa 1995, pp. 89-90.

condition for the achievement of the general purpose and the objectives set forth...including the expansion of international trade, and thus for the well-being of all other countries".²⁷ To respond to this recognition, Article 3 of the Charter directed that "Each Member shall take action designed to achieve and maintain full and productive employment and large and steadily growing demand within its own territory through measures appropriate to its political, economic and social institutions".²⁸

Clearly, this obligation for effective national economic policy was not easily enforceable. Australia had pressed for a stronger provision. But the closest thing to a real discipline that could be obtained was a statement by the drafting subcommittee that ITO members could have recourse to consultation and arbitration (i.e., Article 93) if governmental actions taken by another country under Article 3 did not result in such benefits as might reasonably have been anticipated.²⁹ Nevertheless, the important point in reflecting on the Charter is that such a commitment was inserted in the first place. The authors of the ITO tried to make full and productive employment an international *obligation* because they viewed it as conducive to trade liberalization.

Coordination with the GATT

The ITO employment chapter was not included in the GATT. The main mention of this issue is the statement in GATT Article XII noting that "as a result of domestic policies directed towards the achievement and maintenance of full and productive employment a contracting party may experience a high level of demand for imports involving a threat to its monetary reserves...".³⁰ In such circumstances, parties are not required to withdraw import restrictions complying with the Article.

In 1948, the ILO and the Interim Commission for the ITO prepared a formal cooperation agreement. The agreement stated that the two organizations will "act in close co-operation with each other" in regard to

matters of common interest.³¹ In particular, they would pursue "concerted action to sustain employment, production and demand and to foster and assist industrial and general economic development..." Representatives of each organization would be invited to attend the meetings of the other organization and to participate without vote. Joint committees could also be established.

This agreement was never consummated because the ITO did not come into existence. Still, it shows the prospective relationship intended at that time. In spite of their close geographical proximity, the GATT and the ILO failed to carry out any significant cooperation. Nevertheless, it is interesting to note that an early GATT report alluded to purposes listed in the GATT's preamble – which include ensuring full employment – and stated that this implied that GATT contracting parties "should coordinate their action with that of institutions dealing with other international economic problems".³²

Unfortunately, the GATT undertook very little coordination with the World Bank, the International Monetary Fund, or UN specialized agencies. The main reason, at least in GATT's early years, was that the GATT itself was not an organization. By the 1970s, when it was widely recognized as a *de facto* organization, the GATT had grown quite protective of its trade role, and was no longer eager to coordinate it with others.

Role of the Economic and Social Council

The UN Economic and Social Council was intended to be the main locus of activity on employment policy. The Council set up an Economic and Employment Commission to carry out these efforts. In 1948, questionnaires were sent to governments regarding the actions they were taking to achieve full employment. Many countries responded that attempts to achieve full employment might lead to balance of payments difficulties which might necessitate import restrictions.³³ The Commission warned in its report that import restrictions might help a country in its immediate situation but "would lead to the export of unemployment to other countries".³⁴ Therefore, the Commission recommended "expansionist rather than restrictive measures".

In 1949, during a time of recession, the UN General Assembly adopted a resolution noting that the expansion of international trade "would be seriously impaired by failure to take, or by delay in taking, action designed to maintain full and productive

²⁷ ITO Charter, Article 2(1).

²⁸ *Ibid.*, Article 3.

²⁹ ICITO Doc. I/8, 1948, p. 155.

³⁰ GATT Article XII:3(d).

³¹ ICITO Doc. EC.2/21, 1948.

³² GATT in Action, Geneva 1952, p. 32.

³³ See generally United Nations: Maintenance of Full Employment, New York 1949.

³⁴ Report of the Economic and Employment Commission on its Fourth Session, U.N. Doc. E/1356, 1949, item 44.

employment especially in those countries which have an important share in world trade".³⁵ In addition, the UN Secretary-General appointed a group of experts to consider how to implement the full employment pledge of the UN Charter.

The group made several far-reaching recommendations relating to demand management, monetary stabilization, and the expansion of world trade.³⁶ The Council adopted only a few of these recommendations, such as asking governments to announce their own full employment goals. The only country that complied was the United Kingdom. Many countries that were dependent on foreign trade explained that they were not in a position to pursue a full employment goal when their economic situation was strongly influenced by factors beyond their control.³⁷ Even with this minimal programmes, there was limited follow-up by the Council. Its consideration of employment in 1950 was later described by one analyst as the "high-water mark in United Nations

consideration full employment and economic stability".³⁸

Although post-war planners were anticipating coordinated responses to deflation (resulting from their pre-war experiences), the Council's concerns about deflation were soon replaced with concerns about inflation. In 1952 (when the US unemployment rate was 2.9%), the Council shifted focus to international commodity arrangements as a means of stabilizing prices. By the mid-1950s, the Council had lost whatever impact it ever had on employment policy.³⁹

The Ohlin Report

In 1955, the ILO commissioned a group of experts to consider the social aspects of European economic cooperation. The Ohlin report, as it came to be known, noted that policy agreements aimed at a high level of production and employment would acquire added importance in a regime where governments had given up the ability to restrict trade to protect their economies against "threats of unemployment emanating from abroad".⁴⁰ The report pointed out that nations "participating in a regime of freer trade would have enhanced responsibility toward other countries for avoiding the setting in motion of a deflationary (or inflationary) spiral which would spread across national frontiers". Several actions were recommended including a better coordination of national stabilization policies, well-functioning and comprehensive employment services, retraining facilities, and portability of pension rights.

³⁵ U.N. General Assembly Resolution 308(IV), item 5.

³⁶ See generally National and International Measures for Full Employment, New York 1949.

³⁷ See A.A.P. Dawson: The United Nations and Full Employment, in: International Labour Review, Vol. 63, No. 5, 1953, pp. 401-433.

³⁸ Robert E. Asher: Full Employment and Economic Stability, in: Robert E. Asher et al. (eds.): The United Nations and Economic and Social Co-operation, Washington 1957, p. 226.

³⁹ See Erskine Childers with Brian Urquhart: Renewing the United Nations System, Uppsala 1994, pp. 56-61. Childers argues for a reinvigoration of the Economic and Social Council.

⁴⁰ ILO: Social Aspects of European Economic Cooperation, Geneva, 1956, pp. 93-94.

Hans-Eckart Scharrer (ed.)

Economic and Monetary Policy Cooperation: The EC and Japan

Any meaningful discussion about "managing macroeconomic interdependence" must take into account the national policy objectives, institutional arrangements, and socioeconomic challenges. This collection of papers presents seven contributions of European and Japanese economists relevant to that issue.

Peter Bofinger analyzes potential conflicts between policy coordination on the European and international levels. The following studies deal with the scope and limits of multilateral coordination from the points of view of the United Kingdom (Richard Brown) and Germany (Beate Reszat). Two other papers address more specifically the processes of exchange rate decision-making and coordination in Germany (Jochen Michaelis) and the EMS (Peter Bofinger). The final two articles take up the Japanese dimension, focussing at important current and long-term issues of fiscal (Yukio Noguchi) and monetary (Kazumasa Iwata) policy.

The volume is of interest to economists, political scientists, and all active observers of European, Japanese, and international economic policy.

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The issue of employment arose occasionally in the GATT. For instance, when the GATT underwent revision in 1954-55, New Zealand proposed adding a new article on employment calling on members to take action "to achieve and maintain full and productive employment through measures appropriate to their domestic institution".⁴¹ This amendment was not approved on the grounds that the interest of every country in seeking to maintain the highest possible level of employment "was so obvious that an international commitment on this point would add little if anything to this already compelling incentive".

In 1959, the World Economic Conference of Free Trade Unions urged that the GATT be made "a more satisfactory instrument of world economic policy".⁴² In particular, the Conference recommended that the GATT impose "a positive obligation to maintain domestic full employment and to cooperate in international measures for full employment".

In 1960, the OECD was established with a top aim of promoting policies "to achieve the highest sustainable economic growth and employment and a rising standard of living in Member countries."⁴³ While the OECD has procedures for adopting binding decisions, they have rarely been used. Instead, the OECD has focused on designing better governmental policies and on encouraging cooperation among members.

In 1964, the ILO approved a new convention on employment policy. The convention directs each member to "declare and pursue, as a major goal, an active policy designed to promote full, productive and freely chosen employment".⁴⁴ There are no specific initiatives in the convention. Instead, they are included in a parallel ILO recommendation. This recommendation calls on governments to set quantitative targets for economic growth and employment wherever possible and to apply measures to assist workers in "adapting themselves to the changing needs of the economy".⁴⁵ It also directs governments to cooperate in international action to promote employment objectives and to "contribute to all efforts to expand international trade".

Proposals for Adjustment

In 1967, the Trades Union Congress of the United Kingdom (TUC) put forward a proposal to establish an international fund for worker adjustment assistance. The purpose of this fund was to permit an increased flow of manufactured imports from developing to

industrial countries. In return for an infusion of adjustment funds at a time of need, government programmes would have had to meet certain internationally set standards. This proposal was discussed at the OECD, but no action was taken.

Variants of this idea arose episodically in subsequent years.⁴⁶ In 1972, a study at the Trade Policy Research Centre proposed the adoption of a binding Adjustment Assistance Code in the GATT that would commit countries to set up domestic adjustment assistance programmes and then to substitute them for non-tariff barriers.⁴⁷ In 1983, a study at the Institute for International Economics proposed that an obligation to adopt effective national adjustment programs be added to the agenda for future trade negotiations and made part of the GATT. The idea was that a commitment to cope with the domestic problems caused by imports would "preserve the political credibility of the trade commitments themselves".⁴⁸ In 1986, the GATT "Wisemen" report recommended that future safeguard actions be time-delimited, linked to adjustment assistance, and subject to continuing surveillance.⁴⁹ In 1988, the US Congress directed the President to negotiate changes in the GATT to allow each nation to impose a small fee on imports to pay for adjustment assistance programmes. The Reagan and Bush Administrations were unsuccessful in these negotiations however.

In 1976, the ILO took up the issue of full employment at the World Employment Conference. The Conference recommended that countries place prime emphasis on the generation of new jobs in order to achieve full employment by the year 2000. In addition to macro policies, governments were urged to use selective measures to create job opportunities

⁴¹ GATT, BISD 3S/231, item 27-28.

⁴² International Confederation of Free Trade Unions: *The Need for a Dynamic World Economy*, Brussels, 1959, p. 75.

⁴³ Convention on the OECD, Article 1.

⁴⁴ ILO Convention No. 122, Article 1.

⁴⁵ ILO Recommendation No. 122. Cf. Recommendation No. 169 concerning employment policy.

⁴⁶ Cf. John H. Jackson: *The World Trading System*, Cambridge, Mass. 1989, pp. 174-175.

⁴⁷ See Gerard and Victoria Curzon: *Global Assault on Non-Tariff Trade Barriers*, London 1972, pp. 32-33.

⁴⁸ See C. Fred Bergsten and William R. Cline: *Conclusion and Policy Implications*, in: William R. Cline (ed.): *Trade Policy in the 1980s*, Washington 1983, pp. 773-774.

⁴⁹ Fritz Leutwiler et al.: *Trade Policies for a Better Future*, Geneva 1985, p. 43.

and to integrate employment policy into overall economic policy and national planning.⁵⁰ Also in 1976, an international group of experts commissioned by the Club of Rome recommended that "A full employment policy should be adopted by all governments..."⁵¹

In 1978, the OECD Council agreed upon a set of policy recommendations to promote economic adjustment.⁵² Among these were: renewed emphasis on "supply measures" such as training, a scale down of temporary job creation schemes in the public sector, and more attention to the trade-off between job security and the inhibition of new investment. The OECD also noted the potential disadvantage of levying a heavy tax on employment which "introduces an unnecessary bias in favour of labour-saving investment". Regarding international cooperation, the OECD stated that "collective agreement on the need to shift from defensive to more positive adjustment policies" would make it easier for each country to follow appropriate domestic policies and to honour the OECD trade pledge.

The final institution in this survey of international action to combat unemployment is the G-7, the group of leading industrial countries. Beginning at its first summit in 1975, the G-7 has discussed unemployment and, in most years, has addressed the problem in its annual declarations. But as Klaus Engelen has pointed out in a review of 19 summits through 1993, the employment commitments were often quite general, and taken collectively, do not contain much substance.⁵³

Recent Activity

In the past few years, there has been a revival of interest in employment policy. The OECD, the G-7, the ILO, the European Commission, the Copenhagen Summit, and the World Bank have done new work on the issue. These activities will be reviewed briefly.

The OECD began developing a new framework for

"active" labour market policies in the late 1980s in response to persistent structural unemployment. In 1994, the OECD Secretariat published *The OECD Jobs Study* which pointed out that "There is no single recipe for full employment, but there is a menu of measures that can help move OECD economies toward higher employment with good jobs".⁵⁴ The menu includes appropriate macro policies, technological diffusion, more flexible workplaces, wage flexibility, reforms in employment security and unemployment benefits, and training. This menu was endorsed by OECD ministers.⁵⁵

In 1995, OECD Ministers agreed to "fight unemployment as a top priority" and called for monitoring the implementation of country-specific policy recommendations.⁵⁶ The Secretariat is also continuing its analytical work. For example, a recent OECD study on taxes and employment has put forward the suggestion of substituting energy/carbon taxes for taxes on labour. The study notes that this reform would have the most favourable effects if it was introduced by many countries rather than unilaterally.⁵⁷

In the G-7 summit of 1993, the governments agreed to a "global growth strategy to promote a sustainable expansion designed to create substantial increases in employment".⁵⁸ They also agreed to a follow-up meeting focused on the unemployment problem. In opening that March 1994 meeting, known as the Detroit Jobs Conference, President Clinton remarked that "None of us can find the answers to all of these questions just within the borders of our individual countries".⁵⁹ But the meeting produced nothing of significance, in part because of weak preparatory work.

At the Naples Economic Summit of 1994, there was agreement on "accelerating reforms so as to improve the capacity of our economies to create jobs".⁶⁰ At the Halifax Economic Summit of 1995, the heads of state and government declared that "creating good quality jobs and reducing unemployment is thus an urgent

⁵⁰ See ILO: *Employment, Growth and Basic Needs: A One-World Problem*, Geneva 1976, pp. 179-184.

⁵¹ Jan Tinbergen et al.: *Reshaping the International Order*, New York 1976, p. 145.

⁵² Policies for Adjustment, in: *OECD Observer*, No. 93, July 1978, pp. 10-12; and A. J. Sarna: *International Guidelines for Industrial Adjustment Policies*, in: *Journal of World Trade Law*, Vol. 15, No. 6, 1981, p. 490.

⁵³ Klaus E. Engelen: *Benign Neglect Revisited: It's Time for the G7 to Stop Talking and Start Acting on the Worldwide Jobs Crisis*, in: *The International Economy*, Vol. VII, No. 6, 1993, pp. 42-44.

⁵⁴ OECD: *The OECD Jobs Study*, Paris 1994, p. 40.

⁵⁵ Peter Norman: *Jobs crisis strategy agreed*, in: *Financial Times*, June 8, 1994, p. 1.

⁵⁶ Ministerial Communiqué, in: *The OECD Observer*, No. 194, June/July 1995.

⁵⁷ OECD: *Taxation, Employment and Unemployment*, Paris 1995, p. 100.

⁵⁸ Tokyo Summit Economic Declaration: *A Strengthened Commitment to Jobs and Growth*, item 4, July 1993. See also Peter Norman: *G7 agrees "name of the game is jobs"*, in *Financial Times*, September 27, 1993, p. 2.

⁵⁹ *Weekly Compilation of Presidential Documents*, 1994, p. 516.

⁶⁰ Naples Summit Communiqué, item 3, 1994.

priority for all of us".⁶¹ At the suggestion of French President Chirac, the G-7 agreed to hold a special summit on the topic of jobs in early 1996.

On the occasion of its 75th birthday in 1994, the ILO engaged in both celebration and introspection.⁶² As the only surviving institution from the original League of Nations, the ILO has obviously demonstrated its merit. Yet when one considers the problems that have been addressed by the ILO, most of them persist today.

This apparent inconsistency can be explained by the fact that the ILO was set up to address the negative manifestations of capitalism. Unlike other international problems that can be solved (e.g., linking continents by telephone or wiping out smallpox), full employment and social justice do not have definitive solutions. Even if full employment were achieved today, it could become a problem tomorrow. Although the globalizing international economy does not worsen the syndrome of unemployment, it does not cure it either, in the same way that the globalizing economy may eventually cure the syndrome of national protectionism.

In his report for the 1994 ILO conference, ILO Director-General Michel Hansenne noted that following World War II, the ILO had deferred to the UN Economic and Social Council regarding the employment implications of international economic and financial measures. Since the Council is not fulfilling that part of its intended role, Hansenne put forward the suggestion that ILO annual conferences seek to agree upon authoritative statements to guide national and international policies.⁶³ In his 1995 report titled *Promoting Employment*, Hansenne urged that economic policymaking be broadened, at both the national and the international level, to include ministers responsible for employment and social affairs.⁶⁴ Last year, the ILO forwarded a paper to the World Summit for Social Development (Copenhagen Summit) advocating stronger international action on unemployment. The paper observes that if the "commitment to full employment is not sufficiently generalized among countries with close economic links, then there will be constraints on the action of any one country to attain full employment".⁶⁵

In response to the heightened attention to the issue of unemployment, the ILO earlier this year published a new report called *World employment 1995*. The report suggests that there would be "vast benefits from a renewed commitment by all nations to the objective of full employment" such as the facilitation of

"cooperative international action to achieve higher growth in the world economy and expanding trade and investment flows..."⁶⁶ The report also appears to be an effort to counter analyses by the OECD (and other institutions) which blame government labour policy for causing some unemployment. According to the ILO report, "labour market regulations have not been part of the underlying causes of labour market performance problems".⁶⁷ This debate between international organizations can be beneficial.

In December 1993, the European Commission published a "white paper" on Growth, Competitiveness and Employment.⁶⁸ The paper makes a number of very useful suggestions including, for example, that Member States reduce non-wage labour costs and create a right to on-going training. One of the most interesting chapters critiques the current European development model which is characterized by an "insufficient use of labour resources and an excessive use of natural resources".⁶⁹

In 1992, the UN Conference on Environment and Development (Rio Conference) declared support for the objective of "full and sustainable employment".⁷⁰ In 1995, the World Summit for Social Development committed to "put the creation of employment, the reduction of unemployment and the promotion of appropriately and adequately remunerated employment at the centre of strategies and policies of Governments..."⁷¹ The Programme of Action for the Summit makes a series of constructive suggestions such as "promoting the role of the ILO".⁷²

For its World Development Report of 1995 (the 18th in the series), the World Bank chose the topic of

⁶¹ Halifax Summit Communiqué, item 2, 1995.

⁶² See generally ILO: Visions of the future of social justice, Geneva 1994.

⁶³ ILO: Defending values, promoting change, Geneva 1993, pp. 97-101.

⁶⁴ ILO: Promoting Employment, Geneva 1995, p. 104.

⁶⁵ ILO: Toward full Employment, Geneva 1994, p. 6.

⁶⁶ ILO: World Employment 1995, Geneva 1995, p. 25.

⁶⁷ Ibid., p. 156.

⁶⁸ Commission of the European Communities: The Challenges and Ways Forward into the 21st Century, Brussels 1993, cf. UNICE: Making Europe more competitive, Brussels 1994, chapter 3.4; and Robert Solow: Europe's Unnecessary Unemployment, in: International Economic Insights, Vol. V, No. 2, 1994, p. 10.

⁶⁹ Commission of the European Communities, p. 161.

⁷⁰ Agenda 21, item 29.2.

⁷¹ Copenhagen Declaration, Commitment 3(a).

⁷² Copenhagen Programme of Action, item 54(e) and generally chapter 3.

Workers in an Integrating World. This is the first such report focused on workers, and is thus a welcome change from the only modest attention to employment and labour which has characterized the Bank's work for years. The report offers a strong endorsement of market mechanisms, but notes that "Policies to compensate those hurt by change and help them shift to new occupations are essential so that trade can deliver higher incomes for all, and protectionism can be defeated".⁷³

Towards Better Employment Policy

There are many steps governments can take to generate higher economic and job growth. For example, governments should devote greater attention to the world economy, expand flexibility in labour markets, promote saving, increase training, and facilitate worker adjustment.⁷⁴ It is also increasingly recognized that governments should avoid the wrong steps, such as using trade restrictions to preserve jobs.

There is much less consensus on what public policy should be regarding the unemployment rate. On the one hand, there are affirmations of the goal of "full" employment, or a "high level" of employment, in many international agreements as well as national laws. Few if any governments have announced a goal of a higher unemployment rate. (Of course, governments are sometimes confronted with "tight" labour markets.)

On the other hand, many governments and some international institutions often do not seem to take employment goals very seriously. The World Bank does not even include data on the unemployment rate in the statistical appendix of its annual *World Development Report*. Some countries may actually prefer a high unemployment rate as an inducement to investors. Nevertheless, the annual *World Competitiveness Report* treats a lower unemployment rate as a positive factor in determining competitiveness.⁷⁵

The idea of "full" employment as the ultimate goal was dethroned in the late 1950s following publication of the "Phillips Curve". Later and more refined concepts of a "natural" rate, or a "non-accelerating inflation" rate of unemployment, suggested practical bounds for what could be achieved by macro policy. Identifying those bounds in any particular instance remains controversial however.⁷⁶

At this time, economists do not know how to achieve a very low (or zero) unemployment rate.

But we do know enough to reduce the high unemployment now suffered in many industrial countries. A couple of years ago, the Secretary-General of the OECD gave a speech suggesting that unemployment in Europe was rising inexorably. This point drew a sharp retort from John Williamson of the Institute for International Economics who lamented that this was "exactly the sort of economic irrationality that it is the prime function of the OECD to combat".⁷⁷

It has always been recognized, even by natural rate theorists, that the unemployment rate can be changed by structural policies. Thus, as active labour policies are improved to the point where they gain reliability, it may be possible to lower an economy's natural unemployment rate without aggravating inflation or vastly expanding the public sector. By introducing a new policy instrument, that is, active labour policies, governments would be better able to achieve the goal of a lower unemployment level.

Few would argue against a refocusing and strengthening of national employment policy. But some analysts doubt whether the international coordination of such policies provides much value-added. In 1955, as noted above, the GATT took the position that the interest of every country to seek to maintain the highest possible level of employment "was so obvious that an international commitment on this point would add little if anything to this already compelling incentive". Forty years later, at a time of much higher unemployment, it seems reasonable to reconsider whether an employment commitment within the trade regime would add anything.

A Stronger Employment Regime

In the original plan for the United Nations, the Economic and Social Council was to be the vehicle for coordinating and improving national employment policy. Those efforts failed. While a modernization of the Council, perhaps into an Economic Security Council, could allow the revival of the UN's role on full

⁷³ World Bank: *World Development Report 1995*, Oxford 1995, p. 60.

⁷⁴ See generally Competitiveness Policy Council: *A Competitiveness Strategy for America*, Washington 1993; and Steve Charnovitz: *Designing American Industrial Policy: General Versus Sectoral Approaches*, in: *Stanford Law & Policy Review*, Vol. 5, No. 1, 1993, pp. 78-92; see also Peter F. Drucker: *Trade Lessons from the World Economy*, in: *Foreign Affairs*, Vol. 73, No. 1, 1994, pp. 99-108.

⁷⁵ *World Competitiveness Report*, Lausanne 1994, pp. 584-585.

⁷⁶ See Amanda Bennett: *Business and Academia Clash Over a Concept: Natural Jobless Rate*, in: *Wall Street Journal*, January 24, 1995, p. A1.

⁷⁷ John Williamson: *On Monsieur Paye's Policy Proposals*, in: *International Economic Insights*, Vol. V, No. 1, 1994, p. 25.

employment, it is probably better to assign this task to other institutions.

The three main institutions for carrying out international employment policy are the ILO, the OECD, and the WTO. (The G-7 has a role in fostering a better macro climate for job creation, but those issues will not be covered here.⁷⁸) While some analysts might prefer to select one institution so as to avoid overlap, the unemployment problem is so serious that it merits the attention of all three institutions. It should also be noted that these three institutions are not substitutable because their national memberships do not coincide. Although the ILO has a near universal membership, the OECD is a club of only 25 mainly industrial nations. The WTO has 105 members, but despite the term "world" in its name, many countries, such as China and Russia, have not yet been allowed to join.

Each of these three organizations can bring a special strength to employment policy coordination. The ILO blends the business and labour perspectives on private sector job creation. It has strong research and technical assistance programmes, with a long-standing developing country focus. There is a mechanism for harmonization (i.e., conventions which can be ratified by governments) and workable complaint procedures. Unlike the WTO, the ILO has no inducements to secure ratification of its newly negotiated agreements. The ILO also lacks any means to enforce its labour code.

The OECD can examine issues of macro policy, technology, infrastructure, regulation, capital formation, taxation, and trade in order to develop a comprehensive strategy regarding employment. It also has a strong research programme. There is a mechanism for harmonization, but it has seen little use. Instead, the OECD has relied upon non-binding recommendations and declarations, and upon country reviews.

The WTO carries out harmonization through trade rounds, but until recently, it addressed only government failure (e.g., tariffs), rather than market failure. There are complaint procedures and country reviews. The WTO can enforce its rules by authorizing trade sanctions. One important feature of the trading system is "bindings" wherein countries make individualized commitments regarding their tariff policy.

Traditionally, the OECD focused on the encouragement of better policies (i.e., positive harmonization), while GATT focused on the discouragement of harmful policies (i.e., negative

harmonization). The approach of the GATT has been "contractual" agreement, with countries negotiating trade liberalization rather than simply liberalizing for their own self-interest. By contrast, the OECD has taken up a far broader range of issues than the GATT, but has stressed cooperation rather than legal commitments.

As Kenneth Dam noted in 1970, "The OECD emphasizes the necessity of approaching economic problems from all relevant perspectives simultaneously".⁷⁹ By contrast, the WTO still tends to view its mandate narrowly. This is particularly evident in the WTO's work on trade and environment which is tilted in favour of commercial interests.

In the past few years, there have been many interesting institutional developments in the three organizations. In the Uruguay Round, the GATT began acting more like the OECD and the ILO by addressing market failures through positive harmonization. For example, the Uruguay Round includes comprehensive rules on intellectual property which go far beyond any connection to trade. The OECD recently began acting more like the GATT by concluding a binding agreement on shipbuilding subsidies that is enforceable through sanctions.

In contrast to the OECD and the WTO, which are evolving into stronger organizations, the ILO has not grown in influence. There has been a small amount of institutional innovation, but on the whole, the ILO remains the same organization it was 15 years ago. Unlike the environmental regime, in which initial treaties are weak and then are strengthened in subsequent negotiations, the ILO does not view its treaties as work in progress.⁸⁰ For example, there is no annual "Conference of the Parties" for the nations that have ratified the ILO Convention on Employment Policy.

Despite the importance of its role, the ILO receives comparatively little attention. For instance, the recent Report of the Independent Working Group on the Future of the United Nations does not even mention the ILO.⁸¹ The Clinton Administration has devoted little

⁷⁸ For further discussion, see J. Michie and J. G. Smith (eds.): *Managing the Global Economy*, Oxford 1995 (esp. the chapters by Singh and Zammit, Eatwell, and Smith).

⁷⁹ Kenneth W. Dam: *The GATT: Law and the International Economic Organization*, Chicago 1970, pp. 387-388.

⁸⁰ Cf. Tony Brenton: *The Greening of Machiavelli*, London 1994, p. 252.

⁸¹ Cf. The United Nations in its Second Half-Century, New Haven 1995. The new Brookings Institution study on "Labor Markets and Integrating National Economies" (1994) also neglects to mention the ILO.

attention to the ILO, which is surprising for a supposedly pro-labour government.

This inattention is sad and ironic. The ILO is the oldest international economic organization, and yet in many ways is the most modern. It has many exemplary features that are poorly developed in other international organizations. For example, the ILO has robust (i.e., non-unanimous) voting rules, a governing body, and an annual conference. It has always pursued a pro-market approach and viewed participation as intrinsic to economic development. The ILO is not struggling with the issue of access for non-governmental organizations (NGOs) because labour market NGOs have always been full participants in ILO proceedings.

A new international strategy to combat unemployment should involve the ILO, the OECD, and the WTO. All three organizations rely upon gaitsu to change national policies, but there has never been an attempt by the three organizations to work together. Sustainable job creation requires policy changes in countries on issues (e.g., training, saving) that take many years to generate returns. International organizations can help national governments focus on the long term. Through surveillance and review mechanisms, international organizations can also help national policymakers address the problem of government failure.

The ILO Role

Each year, the ILO approves new labour standards. For example, in 1994, the ILO adopted Convention No. 175 regarding part-time work. Unfortunately, by emphasizing the achievement of new standards, the ILO has given insufficient attention to reviewing and updating existing standards. This syndrome is now recognized in the ILO, but it is unclear what will be done to remedy it.

The ILO should be pushing countries to correct excessive regulations and taxes when they impede employment. Heretofore, the ILO has not done this. It has operated on the principle that the higher one's labour standards, the better. But overregulation can be destructive. The ILO needs to critique governmental standards that are too high, as well as those that are too low.⁸² It might begin by scrutinizing the policies of countries exhibiting greater

unemployment than others at a similar stage of development.

In addition, the ILO could:

- ☐ Pursue the proposal of Director-General Hansenne for the adoption of an annual policy statement regarding unemployment. This issue comes before the ILO Governing Body in November 1995.⁸³
- ☐ Sponsor a conference of the 82 nations that have ratified the Employment Policy convention to consider ways to bolster the convention and its implementation.

The OECD Role

The OECD is already carrying out an analytical programme on employment. In addition, it could:

- ☐ Undertake rigorous reviews of national employment policies, looking not only at the coherence of programmes, but at the levels of commitment. If a country cuts back its government training programmes, as the United States now seems to be doing, that should be reviewed by the OECD. The OECD should also highlight effective programmes.
- ☐ Draft an official recommendation calling for a rationalization and capping of payroll taxes. Employment related taxes should only be used when they are designed to address market failures.
- ☐ Draft a binding code on investment incentives to distinguish between inappropriate job poaching and appropriate governmental (including subnational) subsidies. A good subsidy is something that would increase global economic welfare if all nations did it.

The WTO Role

While the rationale for an employment policy role by the ILO and the OECD may seem clear, the rationale for a WTO role may not. Doesn't the WTO already have plenty of work to do in liberating world trade? Certainly, it does. Yet, it is precisely because so many political barriers to free trade exist that the WTO should pay more attention to the underlying causes of protectionism.

This is not to suggest that the WTO take responsibility for all trade-related employment issues. For example, it would not be constructive to seek GATT bindings on full employment. Rather, the WTO should pursue an adjunctive role on employment policy to support the efforts of the ILO and the OECD. This should be a comfortable stance for the WTO. As WTO Secretariat official Richard Eglin has noted, "GATT promotes multilateral policy coordination as

⁸² See Steve Charnovitz: Promoting Higher Labor Standards, in: *The Washington Quarterly*, Vol. 18, No. 3, 1995, pp. 173-176.

⁸³ The ILO is also currently preparing a report on "employment in the global economy" to be discussed at the 1996 ILO conference.

the most effective means of achieving orderly international relations".⁸⁴

Unemployment has always been a *sub rosa* issue in trade negotiations. The time has now come for an overt consideration of the problem. The United States has an interest in seeing a lower unemployment rate in the European Union because the current situation feeds continued protectionism. Japan has an interest in a lower unemployment rate in the United States, as well as in better adjustment policies for dislocated American workers.

To structure its activity on employment, the WTO should establish a Committee on Trade and Employment. It could operate in parallel to the WTO Committees on "Trade and Environment" and "Trade and Development." The Committee's work programmes could include issues such as:

- ☐ Should the WTO Agreement on Safeguards be amended to require that governments carry out worker adjustment programmes as a pre-condition for instituting or continuing import relief?
- ☐ Should subsidies to "encourage retraining and change in employment" be included in the "green box" of non-actionable subsidies, as they were in the Tokyo Round subsidies code?⁸⁵
- ☐ Should the Trade Policy Review Mechanism be used to examine the employment policies of WTO members with the highest levels of effective protection? Would better employment policies allow more open trade policies?
- ☐ What sort of policies should be adopted toward employment permits for foreign workers? The Committee might follow up on the report of the WTO Negotiating Group on the "movement of natural persons."

Now that the WTO is a bona fide international organization, it should move quickly to sign a cooperative agreement with the ILO along the lines of the unconsummated agreement of 1948. Indeed, the WTO charter explicitly states that the Council "shall make appropriate arrangements for effective cooperation with other intergovernmental organizations that have responsibilities related to those of the WTO".⁸⁶

⁸⁴ Richard Eglin: International Economics, International Trade, International Environmental Protection, in: Wirtschaftspolitische Blätter, No. 3/4, 1993, p. 313.

⁸⁵ GATT, BISD 26S/56, Article 11(1)(c).

⁸⁶ Agreement Establishing the WTO, article V(1).

There has been a temptation in some circles to view the new World Trade Organization (WTO) as a final rout for protectionism. In this view, the conclusion of the Uruguay Round shows that high unemployment is no longer a political constraint to trade cooperation. But this panglossian attitude seems unjustified. The amount of liberalization achieved in agriculture and services, and in developing country barriers, was disappointingly modest. Moreover, the sirens of protection are alive and well.

One political weakness of the GATT/WTO is that it seems oblivious to the job impact of trade. A Committee on Trade and Employment could help the WTO polish its public image. It is ironic that while the WTO is housed in the elegant lakeside complex erected for the ILO in the 1920s – a building with vivid art and sculpture glorifying labour – the GATT has arguably dehumanized trade policy, and paid more attention to the needs of multinational corporations than of workers.

Conclusion

When the G-7 holds its special summit next year on jobs, it should go beyond the usual platitudes. The heads of the ILO, OECD, and WTO secretariats should be invited to the meeting, and should be asked to prepare a joint proposal for combating unemployment. Instead of focusing on actions that G-7 countries might take at home, it might be more useful to catalyze new employment initiatives in international institutions.

As the architects of the postwar trading system knew well, the avoidance of unemployment is not of domestic concern alone, but is an important condition for continued international integration. At this time, there are still significant welfare gains achievable through greater trade and investment liberalization. But these are small compared to the welfare gains achievable through reductions in unemployment.

The international employment regime is as old as the 20th century. Yet it remains a very weak regime. Nations are jealous of their "sovereignty" over employment policy. Nevertheless, the high unemployment being suffered today suggests that unilateralism does not work. The progress against protectionism since Herbert Hoover's era was obtained by recognizing that the tariff was an international issue. Similar progress against unemployment may occur when policymakers recognize the international dimension of employment policy.