

# Unemployment in the major industrial countries

This review finds a long-run increase since the mid-1960s followed by a sharp cyclical upswing in the last two years that is unlikely to be reversed in the near future.

## Lloyd Kenward

During the 1960s, unemployment in the seven major industrial countries—Canada, France, the Federal Republic of Germany, Italy, Japan, the United Kingdom, and the United States—rarely exceeded  $3\frac{1}{4}$  per cent of the combined annual labor force. In contrast, the unemployment rate since 1970 has never been less than  $3\frac{1}{4}$  per cent on an annual basis and by mid-1982 it had swollen to 8 per cent, roughly 22 million persons. Both the recent sharp upsurge and the long-term trend give cause for concern; they represent not only a significant measured underutilization of human resources but also a short-term expansionist threat to the political sustainability of the anti-inflation policies until recently being pursued vigorously throughout virtually all the industrial world. This article complements the Fund's regular monitoring of conditions in labor markets by examining in more detail both the long-term secular rise in unemployment and the upsurge of the past two years.

The most striking feature of the rise in unemployment, apparent from Chart 1, has been its long-standing and pervasive nature. Only during the first half of the 1960s were unemployment rates in all seven major countries declining or stable at relatively low levels. During the latter half of the 1960s, unemployment rates began to edge upward, then gained momentum as the 1970s progressed. Even at the height of activity in 1973 the rate for the entire area was still roughly half a percentage point above the average for the preceding decade. Consequently when employment adjustments had been completed following the deep 1974–75 recession, unemployment rates had reached new postwar highs in most of the seven major industrial countries. Subsequently, and despite the post-recession pickup in activity, few countries were able to achieve a marked, sustained drop in their unemployment rates; for most, the upward trend has continued al-

most unabated. With the onset in 1980 of three successive years of pronounced slow growth, unemployment began another major upswing to rates significantly above the already high levels of the mid-1970s recession.

Only a few countries departed—and briefly at that—from the common, upward trend (see Chart 1). Unemployment in the United States reached a trough in 1969, a few years later than the other countries, and also recorded a marked decline between 1976 and 1979. During this same period, the unemployment rate in the Federal Republic of Germany also declined fractionally after earlier sharp increases that had actually been mitigated by the return of some one half million foreign workers to their home countries. Even Japan, with its traditionally stable unemployment rate, followed the common, rising profile throughout most of the 1970s.

During the 1960s, North American unemployment rates came to be recognized as generally high relative to those in Europe, with the lowest rates in Europe comparable to those in Japan. These patterns changed as the 1970s progressed. By 1981, European unemployment rates were no longer clearly distinguishable from North American rates, with levels in the United Kingdom among the highest of the seven major countries. At the other extreme, Japan, despite a fairly steady increase in unemployment during the 1970s, had rates far below those of any of the other major industrial countries.

In trying to unravel some of the factors behind these large increases in unemployment, four distinct causes may be distinguished: (1) an increase in the growth rate of total population; (2) a change in the population's age structure that increases the number of persons of working age; (3) a rise in the proportion of these persons actively seeking work; and (4) a decline in new employment opportunities. The first three lead to increases in the supply of labor, the fourth to a fall in the demand for it.

### Increased labor supply growth

The broadest possible source of labor supply, total population, is determined by the difference between two usually slowly changing demographic variables, birth and death rates, and changes in a more volatile component, net migration. Given the total population resulting from these factors, the

age structure then determines the proportion actually of working age, typically defined as people between 15 and 64 years of age. Within this age group, a narrower and more elusive concept of labor supply, called the labor force, is formulated by reference to the participation rate, that is, the proportion who are actively seeking work.

Since the early 1960s, sharply declining birth rates, relatively flat death rates, and fairly stable total net migration have resulted in a deceleration in the growth of total population, especially in Europe and North America (Chart 2). For the seven countries as a whole, population growth decelerated from  $1\frac{1}{4}$  per cent a year in the early 1960s to just under  $\frac{3}{4}$  of 1 per cent by the mid-1970s, a pace that has been approximately maintained since then. Net migration patterns have been a major contributor to variations in growth rates of total population. Net outflows have, for example, contributed to the virtual stabilization of population in the United Kingdom since 1973; net inflows have served to sustain resident population growth in Italy during the past decade and swings between net inflows and outflows have induced considerable volatility in German population growth.

The impact of the reduction of overall population expansion on the labor force has, however, been almost evenly balanced by a shift in the age structure of total population. With a larger proportion of the total population entering than leaving the labor force, population in the 15- to 64-year age group has, for the seven countries as a group, tended to grow faster than total population. In the fairly homogeneous labor markets of the two North American countries, where the last of the population surge known as the "postwar baby boom" was entering the labor force toward the end of the 1970s, growth in the working age population has consistently outstripped total population growth for 20 years. In Europe as a whole, where the postwar bulge in birth rates peaked in the mid-1960s, many years later than in North America, an important change occurred in 1973 when, for the first time in ten years, the growth of the labor force exceeded that of total population. This difference was sustained throughout the rest of the decade and by 1978 had become common to all four of the larger countries. In Japan, however, the working-age population grew

much faster than total population during the 1960s, while the opposite took place in the 1970s. Because Japanese birth rates peaked even later than in Europe, another reversal in relative growth rates may be expected in the 1980s. Although such shifts have only transitory influences as birth rate

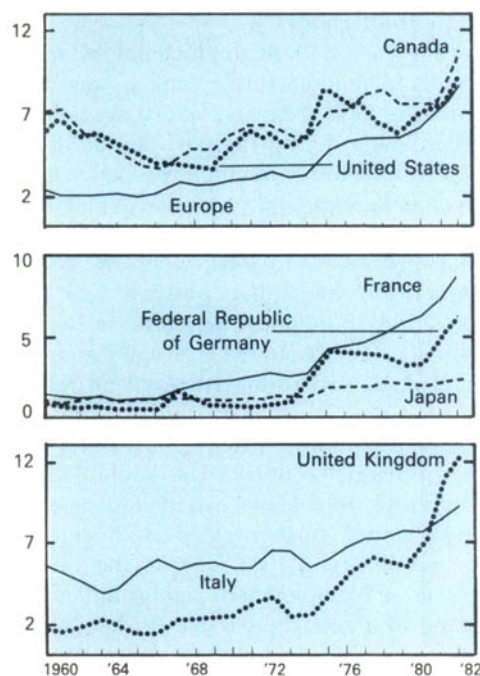
bulges pass through the various age brackets, the impact of changes in age structure in the seven as a group has been sufficiently large over the past two decades to maintain the growth rate of labor force population at a fairly steady pace of just over 1 per cent a year since the mid-1960s, in spite of the marked deceleration of total population.

Given this steady growth of the population of working age—sometimes called the source population—a complicated set of social and economic factors determines the proportion actually seeking employment. In each country, the proportion of the male source population actively seeking work

was lower in 1980 than in the early 1960s (or 1968 in the case of France, for which the relevant data are not available earlier). Although the determinants of participation rates have not been precisely established by quantitative economic methods, several explanations have been advanced to account for these declines, including a shift toward longer periods for education, higher household income, and more generous pension schemes that accommodate earlier withdrawal from the labor force.

Offsetting the decline in male participation rates, often more than proportionately, has been an opposite tendency, evident from Table 1, among females. While

Chart 1  
Unemployment rates in industrial countries, 1960–82  
(In per cent)



Sources: National statistical publications; OECD Labour Force Statistics; Eurostatistics, and Fund staff estimates.

Table 1  
Aggregate and female labor force participation rates, 1962–80<sup>1</sup>  
(In per cent)

	1962		1968		1974		1980
Canada	62.3	(35.4)	64.2	(41.7)	67.5	(48.5)	71.8 (57.3)
United States	66.1	(42.7)	67.1	(46.9)	69.0	(52.3)	72.4 (59.7)
Japan	74.6	(58.7)	72.4	(56.1)	70.8	(52.3)	71.8 (54.9)
France	68.1	—	66.8	(46.1)	67.6	(49.3)	67.6 (52.5)
Germany	70.7	(49.2)	69.2	(47.7)	67.6	(48.7)	65.4 (49.3)
Italy	65.9	(39.5)	60.4	(33.6)	58.7	(34.1)	60.9 (39.8)
United Kingdom	72.8	(48.0)	72.4	(50.0)	73.0	(54.7)	73.5 (57.6)
North America	65.7	(41.9)	66.8	(46.4)	68.8	(51.9)	72.3 (59.5)
Europe	68.8	(46.0) <sup>2</sup>	67.3	(44.3)	66.7	(46.6)	66.7 (49.6)
	<b>68.7</b>	<b>(46.6)<sup>2</sup></b>	<b>68.1</b>	<b>(47.6)</b>	<b>68.4</b>	<b>(49.9)</b>	<b>70.1 (54.8)</b>

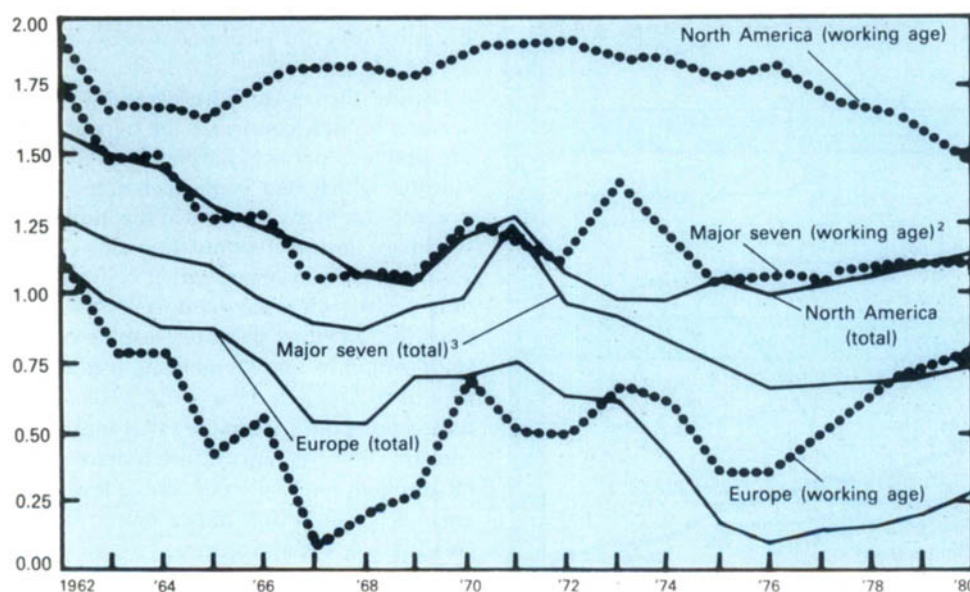
Sources: Organization for Economic Cooperation and Development, *OECD Labour Force Statistics*; and Fund staff estimates.

—Indicates data not available.

<sup>1</sup>Data for women in parentheses.

<sup>2</sup>Excluding France.

Chart 2  
Growth of total and working-age population for major industrial countries, 1962–80<sup>1</sup>  
(Annual growth rates, in per cent)



Source: Organization for Economic Cooperation and Development, *OECD Labour Force Statistics*.

<sup>1</sup>Comprising Canada, France, the Federal Republic of Germany, Italy, Japan, the United Kingdom, and the United States.

<sup>2</sup>Data for Japan include the prefecture of Okinawa from 1973.

<sup>3</sup>Data for Japan include the prefecture of Okinawa from 1971.

the economic factors behind the behavior of male participation rates have no doubt also affected female rates, it seems clear that the dominant influences on the latter have been social; particularly the evolution of attitudes regarding the role of women in the labor market. The proportion of active job-seekers among working-age women in the seven countries has risen from about 47 per cent in the early 1960s, half the proportion for men, to roughly 55 per cent by 1980. Although by historical standards large increases have occurred in female participation rates during the past two decades, especially in North America, it nevertheless remains a common feature of all seven major industrial countries that the levels of these rates for females are still well below those for males.

While the trend toward more women in the labor market has been particularly strong in North America, female participation rates elsewhere did not swing upward until the mid-1960s. These differences, combined with the common downward movement in male rates, imply that the historical evolution of aggregate participation



rates has varied across regions. In North America, they edged upward from comparatively low levels during the 1960s, then climbed sharply in the 1970s; while in Europe as a whole the trend was downward in the earlier decade and stabilized later. In contrast to both these regions, Japan's historically relatively high participation rate has shown no pronounced trend in the past 15 years.

Aggregate movements in participation rates in these countries imply that 1½ per cent more of the population of labor force age was seeking work in 1980 than in the early 1960s with an increase of 2¼ per cent occurring during the 1970s, following a decline through the previous decade. Thus, despite slowing overall population growth in the seven major industrial countries, the dual expansionary forces of rising participation rates and a changing age structure have resulted in the number of persons seeking work growing almost ½ of 1 per cent a year faster during the 1970s than the 1960s.

### New jobs unchanged

In the face of this faster labor force growth, unemployment increased during the 1970s as new employment opportuni-

ties barely maintained their earlier pace. From 1960 to 1970 the growth of total civilian employment averaged just over 1 per cent a year, a pace that was little changed over the course of the next ten years and included substantial outright declines in 1975. Moreover, employment growth stagnated in 1981 and fell in 1982 at a rate close to that experienced in 1975. As a result, by 1982 growth in total employment since 1970 is estimated to have averaged slightly less than that for 1960–70.

Although the growth of total employment was little changed on average over the past two decades, the various sectors fared differently (Table 2). The most dramatic shift in sectoral employment opportunities, one common to all major industrial economies, has been the diminishing role of industry. For the North American countries and France, the peaks in the share of industry in total employment occurred at roughly one third around the middle of the 1960s, while the United Kingdom peaked well before the beginning of that decade, when half of all those employed were in industry. Germany, Italy, and Japan all experienced peaks in the early 1970s, with industry's share in total employment for each within the ranges just

mentioned for the other countries. By late 1982, there were actually fewer people employed in industry than in 1970.

While the general pattern of a diminished role for industry was uniform across all seven countries, the effect was more pronounced in some countries than others. Measured in terms of the creation of new jobs, the North American countries were least affected while Japanese employment in industry slowed the most. The European group, dominated by developments in the United Kingdom and France, experienced outright declines.

The great bulk of employment in industry is in manufacturing, and it was here that the most extensive adjustments have been made during the past decade. Until 1975, the number of employees fell in each regional group, and particularly sharply in Germany, the United Kingdom, and Japan. Between 1975 and 1980, when the North American competitive position was bolstered by pronounced weakness in the external value of both the U.S. and Canadian dollar, manufacturing employment recovered in the United States and Canada, but not to a significant extent in any other major industrial country. The United Kingdom and, to a lesser extent, Japan, even experienced further steep declines. Between 1971 and 1980, only in the United States did employment opportunities expand at a rate comparable to that of the preceding decade; for all the others, except Canada and Italy, there were actually fewer employees in manufacturing in 1980 than there were in 1971. The more severely affected components of manufacturing included the basic metal industries and the wood and wood products manufacturing groups where the number of employees dropped roughly 14 per cent between the 1973 peak and 1980.

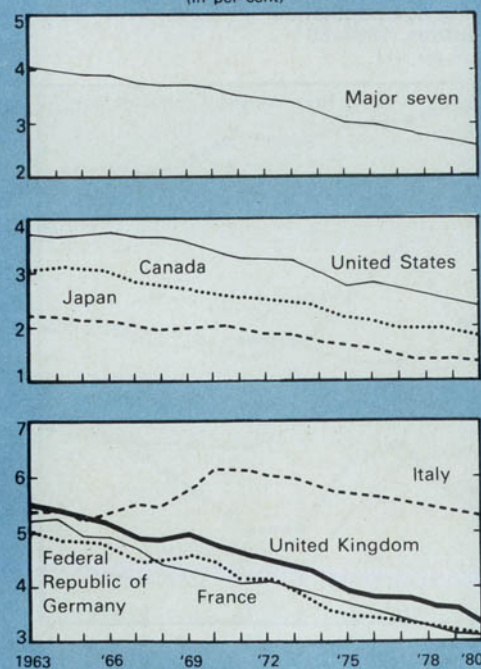
During the 1970s, both agriculture and services broadly continued the trends set in the previous decade. Employment in agriculture, which had been declining in importance for many decades in the industrial world as the rural population flowed toward the industrialized urban centers, fell only slightly more slowly during the 1970s than the previous decade. Despite virtual stabilization in employment in agriculture in North America during the 1970s, continued large declines in the other industrial countries lowered agriculture's share of total employment to 6½ per cent, a level that ensures a continued minor employment-creating role for agriculture.

Services provided the vast majority of new jobs in all the major industrial countries during the past two decades. Employment growth in this sector actually accelerated between the 1960s and 1970s, setting a

## The textile industry

One subdivision within manufacturing that has been forced over the course of the last many years to contend with severe dislocating influences has been the textile, wearing apparel, and leather industries section. Although it is not a large component of manufacturing in industrial countries (it accounted for roughly 12 per cent of those employees in 1980), in many ways both the short- and long-term problems it faces are among the most challenging. On a long-term basis this industry faces intense competition from innovative, cost-efficient production in developing countries, while short-run demand for many of its product lines, especially those related to semidurables and housing, can be quite volatile. This sector is also often of special interest to international organizations because of the protectionist walls that tend to be erected around this sector in reaction to the international competition.

Share of textile-related employees in total employment, 1963–80  
(In per cent)



Source: Organization for Economic Cooperation and Development, *OECD Labour Force Statistics*.

**Table 2**  
**Employment growth by major industrial grouping, 1960-80<sup>1</sup>**  
(Compound annual growth rate in per cent)

	Agriculture		Industry		Services		Total	
	1960-70	1970-80	1960-70	1970-80	1960-70	1970-80	1960-70	1970-80
North America	-4.2	-0.1	1.5	1.2	2.8	3.2	1.9	2.4
Europe	-4.7	-3.3	0.5	-0.9	1.4	1.6	0.1	0.1
Japan	-4.1	-4.2	3.7	0.7	2.7	2.3	1.4	0.8
	-4.4	-3.0	1.4	0.2	2.3	2.5	1.0	1.2

Sources: Organization for Economic Cooperation and Development, *OECD Labour Force Statistics*; and Fund staff estimates.  
<sup>1</sup>Groups are defined according to the International Standard Classification of the United Nations. Agriculture includes hunting, forestry, and fishing; industry comprises mining and quarrying, manufacturing, utilities, and construction; while services refers to four subgroups: wholesale and retail trade; transport, storage, and communications; finance insurance and real estate and business services; and community, social, and personal services.

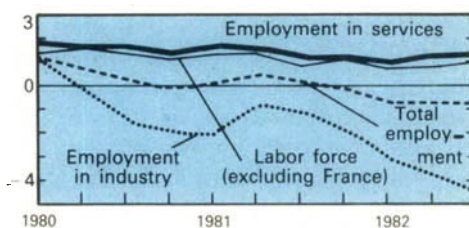
pace of new job creation in both decades well in excess of the overall growth in labor force. The strength in services, combined with weak employment growth elsewhere, resulted in a dramatic increase in the share of services in total employment from about 45 per cent in 1960 to roughly 60 per cent by 1980. Moreover the service sector has not only contributed in a large way to maintaining employment growth for the seven countries, it has also grown consistently, thereby dampening the overall cyclical impact of developments in other sectors, notably manufacturing, where employment has tended to be volatile, especially since 1970.

Despite the consistent and generally accelerating growth in employment in services, only in North America and Italy was this growth sufficient to compensate for the slower growth in agriculture and industry. Among the other four major economies, and particularly in the United Kingdom and France, it was insufficient to sustain the 1960s pace of expansion of total employment. The net impact of these divergent patterns on the composite for the major seven countries was an acceleration in the services sector that was barely adequate to compensate for the slowdown in industry and agriculture up to 1980. However, the situation subsequently deteriorated.

### Recent experience

Against the backdrop of a 15-year rise, unemployment began a strong upward surge early in 1980 with the first large increases appearing in North America, followed within about six months by the European countries. Although these increases in unemployment have been led (see Chart 3) by declines in employment in industry that are consistent with historical precedent, the recent experience differs from the preceding 15 years essentially because of the more widespread and deeper cyclical nature of the current downturn in employment. Current cyclical declines in industrial employment have been even deeper than

**Chart 3**  
**Labor force and employment growth, first quarter 1980-third quarter 1982**  
(Quarter over quarter growth rates, in per cent)



Sources: Organization for Economic Cooperation and Development, *OECD Labour Force Statistics*, and Fund staff estimates.

during the 1974-75 recession and have certainly been more dramatic than the longer-term decelerations during the 1970s. Since the end of 1979, the growth of employment in services has also decelerated, a marked change from the overall experience of the 1970s.

The long-term trend increase in unemployment in the 1970s resulted from faster growth of the labor force that was not absorbed by new employment opportunities. Over the last two years, however, decelerations in labor force growth have actually cushioned the impact of reduced employment growth on measured unemployment. Since the beginning of 1980, labor force growth has decelerated from just under 1½ per cent a year, a rate fairly typical of the

preceding decade, to less than 1 per cent by late 1982. This slowing, referred to as the "discouraged worker effect" is typical of a cyclical downturn in employment and occurs when unemployed workers, demoralized by unsuccessful job searches, eventually withdraw from the labor force.

The severity of unemployment depends not only upon the number of persons unemployed but also upon their characteristics. For example, a high concentration of unemployment among the prime-age group—usually taken to mean those in the 25- to 54-age bracket—is indicative of income losses among heads of multimember households. During the past two years, the largest increase in unemployment in both relative and absolute terms has occurred in this core employment group. The increase in unemployment between 1979 and the first quarter of 1982 was almost twice as large for the prime-age category as for youths, the two groups which together account for the lion's share of the total labor force. Moreover, within this prime-age group the sharpest increase, double that for females, has been among males, the group which still often represents the only working member of multiperson households.

Another indication of the severity of a given increase in unemployment is the rate of turnover among the unemployed. Since legislation-determined unemployment benefit periods are of relatively fixed length, rapid turnover means that the unemployed are more likely to find new jobs before their unemployment benefits expire. Conversely, slow turnover is a sign of more serious and persistent unemployment. For Canada and the United States the average duration of unemployment has recently increased sharply, to levels well above the longer-term averages of the previous decade and, in the case of the United States, reached a new postwar high in December 1982. Similar shifts have been evident in the statistics for the United Kingdom and, less distinctly, Germany.

The *World Economic Outlook*, published in April 1982, provides few grounds for optimism about any significant improvement in the near future from the current, cyclically depressed conditions of labor markets. Although a recovery in real growth is anticipated in the industrial world for 1983, its pace is not expected to be sufficiently strong to lower significantly the overall rate of unemployment, at least before 1984. Over the longer term, however, there is room for more optimism, as some of the adverse factors noted in this paper will begin to unwind and some additional downward pressure will be exerted on unemployment rates.



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