The Labour Divide

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Battling Unemployment
A First Draft Report Presented to the Minister of Labour and Social Policy

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Skopje, Republic of Macedonia
April, 2007

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I. Recommendations

Get the Real Picture

No one in Macedonia knows the real picture. How many are employed and not reported or registered? How many are registered as unemployed but really have a job? How many are part time workers – as opposed to full time workers? How many are officially employed (de jure) – but de facto unemployed or severely underemployed? How many are on "indefinite" vacations, on leave without pay, etc.?

The Statistics Bureau must be instructed to make the gathering and analysis of data regarding the unemployed (through household surveys and census, if necessary) – a TOP PRIORITY.

A limited amnesty should be declared by the state on violations of worker registration by employers. All employers should be given 30 days to register all their unregistered and unreported workers – without any penalty, retroactive or prospective (amnesty). Afterwards, labour inspectors should embark on sampling raids. Employers caught violating the labour laws should be heavily penalized. In severe cases, closures should be enforced against the workplace.

The Minister of Justice, in collaboration with the court system, should accord the persecution of violating employers a high and urgent priority.

The number of trade inspectors should at least be tripled, as per standards in other developing countries.

All the unemployed must register with the Employment Bureau once a month, whether they are receiving benefits, or not. Non-compliance will automatically trigger the loss of the status of "unemployed". If a person did not register without good cause, he would have the right to re-register, but his "unemployment tenure" will re-commence from month 1 with the new registration.

I recommend instituting a **households' survey in addition to a claimant count.** Labour force surveys should be conducted at regular intervals –

regarding the structure of the workforce, its geographical distribution, the pay structure, employment time probabilities.

The statistics Bureau should propose and the government should adopt a Standard National Job Classification.

The Unemployment Benefits

Unemployment benefits – if excessive and wrongly applied – are self - perpetuating because they provide a strong disincentive to work.

Health insurance should be separated from unemployment benefits. Unemployment benefits and health benefits should be paid independently of each other.

Unemployment benefits should be means tested. There is no reason to pay unemployment benefits to the children of a multi-millionaire. Unemployed with assets (especially liquid assets) should not receive benefits, even if they are otherwise eligible. The benefits should scale down in accordance with wealth and income.

Unemployment benefits should always be limited in time, should decrease gradually and should be withheld from certain segments of the population, such as school dropouts, those who never held a job, (in some countries) women after childrearing.

Eligibility to unemployment benefits should be confined to those released from work immediately prior to the receipt of the benefits, who are available to work by registering in an employment bureau, who are actively seeking employment and who pass a means test. Benefits should be withheld from people who resigned voluntarily or discharged due to misconduct or criminal behaviour. In the USA, unemployment compensation is not available to farm workers, domestic servants, the briefly employed, government workers and the self- employed.

Unemployment benefits should not exceed short-term sickness benefits (as is the case in Canada, Denmark and the Netherlands). Optimally, they should be lower (as is the case in Greece, Germany and Hungary). Alternatively, even if sickness benefits are earnings-related, **unemployment benefits can be flat** (as is the case in Bulgaria and Italy). In Australia and

New Zealand, both sickness benefits and unemployment benefits are means tested. It is recommended to reduce the replacement rate of unemployment benefits to 40% of net average monthly wages in the first 6 months of benefits and to 30% of net average monthly wages thereafter in the next 6 months.

Unemployment benefits should be limited in time. In Bulgaria, they are limited to 13 weeks, in Israel, Hungary, Italy and the Netherlands to 6 months and in France, Germany, Luxemburg and the United Kingdom – 12 months. Only in Belgium are unemployment benefits not limited in their duration. In most of these, countries, though, social welfare payments replace unemployment benefits following the prescribed period of time – but they are usually lower than the unemployment benefits and serve as a disincentive to remain unemployed rather than employed. It is recommended to limit the duration of unemployment benefits to 12 months.

No health insurance should be paid for those unemployed for more than 6 months.

No unemployment benefits should be paid to a person who refuses work offered to him or her on any grounds, except on medical grounds.

I recommend a few pilot projects with the aim of implementing them nation-wide, should they prove successful:

A pilot project should be attempted to provide **lump sum block grants** to municipalities and to allow them to determine eligibility, to run their own employment-enhancement programs and to establish job training and child care assistance. An assessment of the success or failure of this approach in a limited number of municipalities can be done after one year of operation.

The unemployed worker, who participates in the second pilot project, should be provided with a choice. **He could either receive a lump sum or be eligible for a longer period of unemployment benefits.** Alternatively, he can be provided with a choice to either receive a larger lump sum or to receive regular unemployment benefits. In other words: he will be allowed to convert all or part of his unemployment benefits to a lump sum. The lump sum should represent no more than 9 months of unemployment benefits reduced to their net present value (NPV).

The **state should provide matching funds** if the person chooses to establish a business, alone or in partnership with other unemployed people (provide credits of 1 euro or a state guarantee for 1 euro against every 1 euro invested by the unemployed person).

The third pilot project involves the formation of **private unemployment insurance plans** to supplement or even replace the insurance (compensation, benefits) offered by the Employment Fund. In many countries, private unemployment insurance is lumped together with disability and life insurance – all offered by the private sector within one insurance policy.

The fourth and last pilot project involves the formation of **"Voucher Communities"**. These are communities of unemployed workers organized in each municipality. The unemployed exchange goods and services among themselves. They use a form of "internal money" – a voucher bearing a money value. Thus, an unemployed electrician can offer his services to an unemployed teacher who, in return will give the electrician's children private lessons. They will pay each other with voucher money. The unemployed will be allowed to use voucher money to pay for certain public goods and services (such as health and education). Voucher money will not be redeemed or converted to real money – so it has no inflationary or fiscal effects, though it does increase the purchasing power of the unemployed.

Encouraging Employers to Hire the Unemployed

The principle governing any incentive scheme intended to encourage employers to hire hitherto unemployed workers must be that the employer will get increasing participation in the wage costs of the newly hired formerly unemployed workers – more with every year the person remains employed. Thus, a graduated incentive scale has to be part of any law and incentive plan. Example: employers will get increasing participation in wage costs – more with every 6 months the person has been unemployed by them.

Additionally, employers must undertake to employ the worker a number of months equal to the number of months they received benefits for the worker and with the same salary. It would be even better if the incentives to the employer were to be paid for every SECOND month of employment. Thus, the employer would have an incentive to continue to employ the new worker.

Employers will receive benefits for a new worker only if he was registered with an unemployment office for 6 consecutive months preceding his new employment.

I recommend linking the size of investment incentives (including tax holidays) to the potential increase in employment deriving from the investment project.

ALTERNATIVE TEXT PROPOSED BY MACEDONIAN EXPERTS

There are two types of incentive schemes intended to encourage employers to hire hitherto unemployed workers.

In the first method the employer gets increasing participation in the wage costs of the newly hired formerly unemployed workers – more with every year the person remains employed. Thus, a graduated incentive scale has to be part of any law and incentive plan. Example: employers will get increasing participation in wage costs – more with every 6 months the person has been unemployed by them.

In the second method (preferrale in Macedonia's conditions), employers must undertake to employ the worker a number of months equal to the number of months they received benefits for the worker and with the same salary. It would be even better if the incentives to the employer were to be paid for every SECOND month of employment. Thus, the employer would have an incentive to continue to employ the new worker.

Employers will receive benefits for a new worker only if he was registered with an unemployment office for more than 12 consecutive months preceding his new employment – or if he or she is a recipient of welfare payments and social benefits through the Employment Bureau. This is much like the very successful American and British schemes of "Welfare to Work".

I recommend linking the size of investment incentives (including tax holidays) to the potential increase in employment deriving from the investment project.

Encouraging Labour Mobility

Workers must be encouraged to respond promptly and positively to employment signals, even if it means relocating. We recommend **<u>obliging a worker to accept any job offered to him in a geographical radius of 100 km from his place of residence.</u>** Rejection of such work offered ("it is too far") should result in a loss of the "unemployed" status and any benefits attaching thereof. On the other hand, the **<u>Employment Bureau should offer financial and logistical assistance in relocation and incentives to relocate to areas of high labour demand.</u>** The needs of the unemployed worker's family should also be considered and catered to (kindergarten or school for his children, work for his wife and so on).

<u>Fixed term labour contracts</u> with a lower cost of dismissal and a simplified procedure for firing workers must be allowed (see details below).

I recommend **<u>altering the Labour Relations Law to allow more flexible hiring and firing procedures.</u>** Currently, to dismiss a worker, the employee has to show that it has restricted hiring, applied workforce attrition and reduced overall overtime prior to dismissing the worker. The latter has recourse to the courts against the former. This recourse should be eliminated and replaced with conciliation, mediation, or arbitration (see below for details).

Reforms in the Minimum Wage

The minimum wage is an obstacle to the formation of new workplaces (see analysis in the next chapter). It needs to be reformed.

I propose a **<u>scaled minimum wage</u>**, age-related and means tested and also connected to skills.

In other words, the minimum wage should vary according to age, other (non-wage) income and skills.

Administrative Measures: Early Retirement

Macedonia must allow the employer to **<u>encourage the early retirement of workers</u>** which otherwise might be rendered technologically redundant.

Early retirement is an efficient mechanism to deal with under-employment and hidden unemployment.

Romania ameliorated its unemployment problem largely through early retirement.

Offering a severance package, which includes a handsome up-front payment combined with benefits from the Employment Fund, can encourage early retirement. A special **Early Retirement Fund** can be created by setting aside receipts from the privatization of state assets and from dividends received by the state from its various shareholdings, to provide excess severance fees in case of early retirement.

ALTERNATIVE TEXT PROPOSED BY MACEDONIAN EXPERTS

An employer with technologically redundant employees should be allowed to offer to them the following retirement scheme:

1. They will be considered pensioners for the purposes of every applicable law and benefit (for instance, for the purposes of the Health Fund).
2. Thus, they will not be "fired" but "retired".
3. Upon retirement, they will receive a lump sum, which will represent their compensation for their accumulated work tenure, in accordance with the law (=their severance fee).
4. They will begin to receive monthly pension payments, as per their entitlement, work tenure, level of last salary, etc. only when they reach the age prescribed by law (63 – 65) – LIKE EVERY OTHER PENSIONER.

NOT RECOMMENDED Administrative Measures: Reduction of Working Hours

Another classic administrative measure (lately implemented in France) is a **reduction in the standard working week** (in the number of working hours). For reasons analyzed in the next chapter, we recommend NOT to implement such a move, despite its obvious (though false) allure.

NOT RECOMMENDED Administrative Measures: Public Works

All the medically capable unemployed should be compulsorily engaged in **public works** for a salary equal to their unemployment benefits (Workfare). A refusal by the unemployed person to be engaged in public works should result in the revocation of his "unemployed" status and of all the benefits attaching thereto.

Generally, we would not have recommended public works.

From the Encyclopedia Britannica:

"The weakness in the proposal to use disguised unemployment for the construction of social overhead capital projects arises from inadequate consideration of the problem of providing necessary subsistence funds to maintain the workers during the long waiting period before the projects yield consumable output. This can be managed somehow for small-scale local community projects when workers are maintained in situ by their relatives – but not when workers move away. The only way to raise subsistence funds is to encourage voluntary savings and expansion of marketable surplus of food purchased with these savings."

But public works financed by grants or soft loans can serve as an interim "unemployment sink" – a buffer against wild upswings in unemployment.

The situation in Macedonia is so extreme, that it is comparable only to the Great Depression in the USA.

In the USA, in 1932, the Civilian Conservation Corps (CCC) was established to tackle nature conservation work for the young and unmarried men. They planted trees, erected flood barriers, put out forest fires and constructed forest roads and trails. They lived in work camps under a semi-military regime. They were provided with food rations and a modest monthly cash allowance, medical care and other necessities. The CCC employed 500,000 people at its peak – and 3 million people throughout its existence.

In any case, there is always the danger that public works will simply displace existing employment. Labour union and local municipality endorsements should, therefore, be strictly observed.

Administrative Measures: Public Education and Dissemination of Information – The Functioning of the Employment Bureau

The dissemination of information regarding employment practices, opportunities, market requirements, etc. should be a prime component of the activity of the Employment Bureau. It must transform itself from a mere registry of humans to an **active, computerized exchange of labour**. This can be done through computerized employment exchanges and intermediation.

To **change the image of the Employment Bureaus** from places where the unemployed merely registers and receive benefits to a labour exchange can be done by publishing examples of successful job placements.

I recommend to **prominently display and disseminate information** regarding the rights of the unemployed, their obligations and services available to them and to publish weekly or daily employment bulletins.

I recommend to **place computer terminals in all bureaus** with the latest data regarding jobs offered and sought. Both employers and the unemployed should be able to **directly access and update** the system from PCs or laptops or by submitting forms.

To organize **seminars for the unemployed and to employers** in which the rights of the unemployed, their obligations and the services offered to them and to their potential employers will be described. This can be combined with employment fairs. Separately, the unemployed should be taught in these seminars how to find a job, prepare a curriculum vita (biography), entrepreneurial skills, preparation of business plans, marketing plans, feasibility studies, credit applications and interview skills.

The Employment Bureaus in collaboration with the local authorities should organize **job clubs, labour exchanges and employment fairs** – places where employers can meet potential employees, currently unemployed. These should not be one-off, haphazard events. They should be periodic, regular, and predictable.

I recommend to **oblige the mass media by law to dedicate at least an hour weekly** (could be broken to as many as 4 segments of 15 minutes each) to unemployment: disseminate information, organize a televised labour exchange, a televised entertainment show (where employers will offer a job to a winner) and so on.

I recommend to link by a **Wide Area Network (WAN) or Intranet with firewalls the National Employment Bureau, the Health Fund, the Pension and Disability Insurance Fund and the Social Security Office**. To cross and compare information from all these bureaus on a real time basis (to specifically cater to the needs of an unemployed person) and on a periodical basis for supervision and control purposes.

The National Employment Bureau should maintain a **regular presence in employment fairs abroad**. Many fairs are global and work can be obtained in them for Macedonian workers (especially the more skilled).

I recommend the creation of a **special office within the Ministry of Labor and social Work with the aim of actively soliciting employment abroad** for qualified and skilled Macedonians (from construction workers to computer programmers). This office will:

- Scan for job offers in foreign countries
- Make contact with government structures, public sector, and private sector employers abroad
- Sign agreements with said employers and negotiate with them all employment terms and conditions. These terms and conditions are bound to be better than anything individual laborers can obtain by themselves.
- Advertise for workers in Macedonia, based on the agreements afore signed.
- Match workers with job offers abroad, based on the signed agreements.
- Self-finance by collecting a commission based on a the first pay of every placed worker.

A National employment Contract

A "National Employment Contract" should be signed between the government, the trade unions, the employers (Chamber of Commerce) and the Central Bank. All parties will have to concede some things.
The Employers will guarantee the formation of new work places against a freeze on employee compensation, a separate treatment of part time labour (exclusion from collective bargaining), flexibility on minimum wages and with regards to job security, hiring and firing procedures, social and

unemployment benefits, indexation of wages and benefits, the right to strike and the level of salaries.
The employers will obligate themselves to fixed quantitative targets over a number of years against the receipt of the unemployment benefits of the newly hired (or another form of subsidy or tax incentive) and/or a discount in social contributions.
The National Employment Contract should aim to constrain inflation by limiting wage gains to productivity gains (for instance, through dividends on the shareholdings of the workers or through stock options schemes to the workers).
In return, the trade unions will be granted effective control of the shop floor. This is the neo-corporatist approach.
It means that the tripartite social contract will increase employment by moderating wage demands but the unions will control policies regarding unemployment insurance, employment protection, early retirement, working hours, old age pensioners, health insurance, housing, taxation, public sector employment, vocational training, regional aid and subsidies to declining and infant industries.
In Sweden and Germany there is co-determination. Workers have a quasi-constitutional shop floor representation even in non-wage related matters (such as the work organization).
Many countries instituted an "Incomes Policy" intended to ensure that employers, pressurized by unions, do not raise wages and prices. In Sweden, for instance, both labour and management organizations are responsible to maintain price stability. The government can intervene in the negotiations and it can always wield the whip of a wage freeze, or wage AND price controls. In Holland the courts can set wages. Wages and unemployment benefits are perceived as complementary economic stabilizers (contra the business cycle).

Another possibility is a Guaranteed Wage Plan – Employers assure minimum annual employment or minimum annual wages or both to those employees who have been with the firm for a minimum of time.

Firms and trade unions must forego the seniority treatment (firing only the newly hired – LIFO, last in first out). The firm should be given a free hand in hiring and firing its employees regardless of tenure.

Labour Disputes Settlement

The future collective agreements should all be subordinated to the National Employment Contract. All these agreements should include a compulsory dispute settlement through mediation and arbitration. All labour contracts must include clear, compulsory and final grievance procedures. Possibilities include conciliation (a third party bring management and labour together to try and solve the problems on their own), mediation (a third party makes nonbonding suggestions to the parties) and arbitration (a third party makes final, binding decisions), or Peer Review Panels – where the management and the employees together rule on grievances.

A strike will be allowed only AFTER the failure of OBLIGATORY arbitration, mediation, or conciliation procedures.

I recommend allowing out of court settlement of disputes arising from the dismissal of employees through arbitration, an employees' council, trustees or an employer-employee board.

Unconventional Modes of Work

Work used to be a simple affair of 7 to 3. It is no longer the case.

In Denmark, the worker can take a special leave. He receives 80% of the maximum unemployment benefits plus no interruption in social security providing he uses the time for job training, a sabbatical or further education, or a parental leave. This can be extended to taking care of old people (old parents or other relatives) or the terminally ill – as is the case in Belgium (though only for up to 2 months). It makes economic sense, because their activities replace social outlays.

In Britain, part time workers receive the same benefits in case of layoffs and wrongful dismissals and in Holland, the pension funds grant pensions to part time workers.

Special treatment should be granted by law and in the collective agreements to night, shift and weekend work (for instance, no payment of social benefits).

All modes of part-time, flextime, from home, seasonal, casual and job sharing work should be encouraged. For example: two people sharing the same job should be allowed to choose to be treated, for tax purposes and for the purposes of unemployment benefits, either as one person or as two persons and so should shift workers. In Bulgaria, a national part time employment program encouraged employers to hire the unemployed on a short term, part time basis (like our Mladinska Zadruga).

The law should be altered to remove the current upper limit of 6 months imposed on temporary employment. Employers and employees should be allowed to contract freely, for any length of time they find appropriate (and providing they register their contract lawfully).

Macroeconomic Policies

The macroeconomic policies of Macedonia are severely constrained by its international obligations to the IMF and the World Bank. Generally, a country can ease interest rates, or provide a fiscal boost to the economy by slashing taxes or by deficit spending.
Counter-cyclical fiscal policies are lagging and as a result they tend to exacerbate the trend. Fiscal boosts tend to coincide with booms and fiscal contraction with recessions.
In view of the budget constraints (more than 97% of the budget is "locked in"), it is not practical to expect any employment boost either from the monetary policy or from the fiscal policies of the state in Macedonia.

What I do recommend is to introduce a "**Full Employment Budget**" (see details in Appendix number I). A full employment budget adjusts the budget deficit or surplus in relation to effects of deviations from full or normal unemployment. Thus, a simple balanced budget could be actually contractionary. A simple deficit may, actually, be a surplus on a full employment basis and a government can be contractionary despite positive borrowing.

Apprenticeship, Training, Retraining and Re-qualification

The law should be amended to allow for apprenticeship and training with training sub-minimum wages. Mandatory training or apprenticeship is a beneficial rigidity because it encourages skill gaining. Germany is an excellent example of the benefits of a well-developed apprenticeship program.

Most of the unemployed can be retrained, regardless of age and level of education. This surprising result has emerged from many studies.

The massive retraining and re-qualification programs needed to combat unemployment in Macedonia can be undertaken in collaboration with the private sector. The government will train, re-train, or re-qualify the unemployed worker – and the private sector firms will undertake to employ the retrained worker for a minimum period of time following the completion of his or her training or retraining. Actually, the government should be the educational sub-contractor of the business sector, a catalyst of skill acquisition for the under-capitalized private sector. Small business employers should have the priority in this scheme.

There should be separate retraining and re-qualification programs according to the educational levels of the populations of the trainees and to the aims of the programs. Thus, vocational training should be separated from teaching basic literacy and numeracy skills. Additionally, entrepreneurship skills should be developed in small business skill training programs and in programs designed to enhance the management skills of existing entrepreneurs.

All retraining and re-qualification programs should double as advisory services. . The instructors / guides / lecturers should be obliged to provide legal, marketing, financial, sales-related or other consulting. Student who will volunteer to teach basic skills will be eligible to receive university credits and scholarships.

Entrepreneurship and Small Businesses

Small businesses are the engine of growth and job creation in all modern economies. In the long run, the formation of small businesses is Macedonia's only hope. The government should encourage the provision of micro-credits (from microfinance through to commercial banking) and facilities to set up small and home-based businesses by the banking system. In the absence of reaction from or collaboration with the banking system, the state itself should step in to provide these funds and facilities (physical facilities and services – such as **business incubators**).

Thus, the state should encourage small businesses through **microcredits, incubators, tax credits, and preference to small businesses in government procurement.**

1. The government will encourage the provision of **micro-credits and facilities** to set up small and home-based businesses by the banking system and non-banking special purpose financial institutions.

2. The government – through its network of Employment Bureaus and facilities – will provide entrepreneurs with **physical facilities and services – such as business incubators**.

3. The state will encourage small businesses through the provision of **subsidized and state guaranteed micro-credits**.

4. The government will give domestic investors and domestic entrepreneurs and intrapreneurs (=investments within big firms) the **same treatment accorded to foreign investors**: tax credits, tax holidays, deferral of capital gains taxes and so on.

5. Small to medium size businesses will be given **preference in government procurement and in public tenders**.

6. The government will encourage innovation and the formation of intellectual property by **financing the registration of international patents, brand names, copyrights, and trademarks and by organizing innovation fairs and exhibitions** in Macedonia or participating in such fairs and exhibitions abroad in an effort to locate investors, venture capitalists and risk capital funds for Macedonian inventors and innovators.

7. The government will encourage home businesses by **supporting women entrepreneurs**. This will be done by providing them with the conditions to work and exercise their entrepreneurial skills. By establishing day care centres for their children. By providing micro-credits (microfinanace). By giving women special tax credits. By allowing or encouraging flextime or part time work or work from home. By recognizing the home as the domicile of business (especially through appropriate tax deductibles). By equalizing the

legal rights and pay of women with men. By protecting them from sexual or gender harassment.

8. The government will **identify priority future leading economic sectors and act to support them**. The education and higher education systems will be re-directed and encouraged to produce the skills needed by these economic sectors. In Macedonia, these sectors include: designer textiles, off season agricultural products, high value added agricultural products (e.g., greenhouse flowers), organic foods, ethnic foods, remote processing of backroom operation using computers and modems, software authoring and many other sectors where Macedonia has comparative advantages.

9. The government will encourage **community-level and municipality-level economic activities and other civic local initiatives**. This will be done by opening municipal "one stop shops" and by providing financial assistance and participation of the state, either through the banking system or through independent contractors.

10. The government will implement a **"One Stop Shop" approach in all relevant economic legislation and regulation**. It will strive to cut bureaucracy by amending all the laws related to business and trade to include a mandatory "one stop shop" provision.

11. The government will **encourage big firms to reward entrepreneurial and innovating workers, to spin off small businesses, to create in-house incubators and to protect their intellectual property**. This will be done by providing a mixture of tax benefits and direct financial assistance.

12. The government will act to **disseminate knowledge and information regarding business, financing, business-related skills and practices, entrepreneurship, management, and quality control techniques** – both through the mass media or directly, through educational schemes and institutions, both public and private.

13. All senior government officials, including ministers, will meet small business owners and entrepreneurs on a regular basis. The government will establish an inter-ministerial **"Committee for Small Business**

and Entrepreneurship", chaired by the Prime Minister. This will be a steering committee with executive powers.

COMMENT OF MACEDONIAN LABOR EXPERTS

BUT, empirical research has demonstrated that investors are not lured by tax breaks and monetary or fiscal investment incentives. They will take advantage of existing schemes (and ask for more, pitting one country against another). But these will never be the determining factors in their decision-making. They are much more likely to be swayed by the level of **protection of property rights**, **degree of corruption**, **transparency**, **state of the physical infrastructure**, **education and knowledge of foreign languages** and **"mission critical skills", geographical position** and **proximity to markets** and **culture and mentality**.

Q: Women start one-third of new businesses in the region: now can this contribution to economic growth be further stimulated?

By providing them with the conditions to work and exercise their entrepreneurial skills. By establishing day care centres for their children. By providing microcredits (women have proven to be inordinately reliable borrowers). By giving them tax credits. By allowing or encouraging flexitime or part time work or work from home. By recognizing the home as the domicile of business (especially through the appropriate tax laws). By equalizing their legal rights and their pay. By protecting them from sexual or gender harassment.

II. The Facts

Labour Mobility, Unemployment Benefits and Minimum Wages

We are all under the spell of magic words such as “mobility”, “globalization” and “flextime”. It seems as though we move around more frequently, that we change jobs more often and that our jobs are less secure. The facts, though, are different.

The world is less globalized today than it was at the beginning of the century. Job tenure has not declined (in the first 8 years of every job) and labour mobility did not increase despite foreign competition, technological change and labour market deregulation. The latter led to an enhanced flexibility of firms and of hiring and firing practices (temporary or part time workers) but this is because many workers actually prefer casual work with temporary contracts to a permanent position.

Granted, people have been and are moving from failing firms and declining industries to successful ones and booming sectors. But they are still reluctant to change residence, let alone emigrate. Thus, jobs remain equally stable in deregulated as in regulated labour markets.

Yet, this phobia of losing one’s job (arising from the aforementioned erroneous beliefs) serves to increase both the efficiency and productivity of workers and to moderate their wage claims.

It is safe to assume that collective bargaining led to increased wages and, thus, to less hiring and less flexible labour markets. It is therefore surprising to note that despite the declining share of unionized labour in two thirds of the OECD countries – unemployment remained stubbornly high. But a closer look reveals why. Both France and the Netherlands (where unionized labour declined from 35% of the actually employed to 26%), for instance, extended the coverage of collective agreements to non-unionized labour. It is only where both union membership and coverage by collective agreements were both reduced (USA, UK, New Zealand, Australia) that employment reacted favourably. Thus, at the one extreme we find the USA and Canada where agreements are signed at the firm or even individual plant level. At the other pole we have Scandinavia where a single national agreement prevails. All the rest are hybrid cases. Britain, New Zealand and Sweden decentralized their collective bargaining processes while Norway and Portugal centralized it. The evidence produced by hybrid cases is not conclusive. Decentralized bargaining clearly reduced wage pressures but centralized bargaining also moderated wage demands (union leaders tended to consider the welfare of the whole workforce. Still, it seems that it is much preferable to choose one extreme or the other rather than opt for hybrid bargaining. The worst results, for instance, were obtained with national bargaining for specific industries. Hybrid Europe saw its unemployment soar from 3 to 11% in the last 25 years. Pure system USA maintained its low rate of 4-5% during the same quarter century. These opposing moves cannot be attributed to monetary or fiscal policies. This is because all economic policies are geared towards increasing employment. Budget cuts, for instance, depress demand and job formation in the short term but, by lowering real interest rates, they encourage investment and job formation in the longer term.

The cycle is:

Employment protection laws make it hard to fire workers and hard for fired workers to find new jobs. The longer one is unemployed, the lesser the chances of employment. Skills rust and the long term unemployed become the unemployable. Gradually, desperation sets in and the unemployed stop looking for a job. Their absence is conspicuous in that they do not restrain the wages paid to the employed. They have become part of the structural unemployment.

Blanchard and Wolfers studied 20 countries between the years 1960-96. They applied 8 market rigidities to their subjects. The average unemployment increased by 7.2% in this period. But in countries with strict employment protection unemployment rose by double the amount in countries with lax labour legislation. The country with the most generous unemployment benefits saw its unemployment rate grow by five times the rate of the stingiest country. And in countries with highly coordinated wage bargaining, unemployment has grown by four times its growth in countries with decentralized bargaining.

It is difficult to isolate these parameters from the general decline in productivity, the increase in real interest rates and technological change and restructuring. Still, the results are fairly unequivocal. Other research (the 1994 OECD one year study, the DiTella-MacCullouch study) seems to support these discoveries:

That flexibility is a good thing. It encourages employment, it leads to higher output and to a higher GDP per capita. The reason a transition from a rigid to a flexible labour market does not yield immediate results is that it increases the participation in the labour force. The rate of unemployment is, thus, affected only later, it lags the changes. But flexibility leads to lower rates of unfilled vacancies and to a lower persistence of unemployment over time.

Unemployment in Europe is structural (in Germany it has been estimated to be as high as 8.9%). It is the cumulative result of decades of centralized wage bargaining, strict job protection laws, and over-generous employment benefits. The IMF puts structural unemployment in Europe at 9%. This is while the USA's structural rate is 5-6% and the UK reduced its own from 9% to 6%. The remedies, though well known, are politically not palatable: flexible wages, highly mobile labour, flexible fiscal policy.

Deregulation makes labour markets more flexible because it forces the worker to accept almost any job. Cutting or limiting jobless benefits has largely the same effect. Employers feel more prone to hire people if they can negotiate their wages with them directly and on a case-by-case basis and if they can fire them at will. Hence the debilitating effect of minimum wages and other wage controls as well as of job protection laws.

But all these steps must be implemented together because of their synergy. Research has demonstrated the impotence and inefficacy of half hearted half measures.

Some hesitant steps have been adopted by the governments of Germany and France (which trimmed jobless benefits), by Italy (which stopped linking benefits to inflation), by Belgium, Spain and France, which reduced the minimum wage payable to young people. Spain established two classes of workers with an increased bargaining power granted to those with permanent employment. Yet, some measures yielded quite unexpected and unwanted results. France legislated a reduced working week. Other countries imposed a freeze on hiring with the aim of attrition of the workforce through retirement. Yet, these last two remedies led to an increase in the bargaining power of the remaining workers and to real wage increases.

The only clear causal relationship is between unemployment benefits and the level of employment. The lower the unemployment benefits, the more people seek work and wages decrease. As a result, firms hire more workers. But, firms hire even more when dismissing workers is made easier and cheaper.

Paradoxically, the easier it is to fire workers, the more workers firms are willing to take on and the more secure workers feel knowing that their chances of being hired are better. They look harder for work and find it, reducing the level of unemployment and the costs to the state of jobless benefits. Having to spend less on unemployment benefits, the government can either cut taxes of improve the allocation of its resources. In both cases the economy improves and provides an added incentive to work. This is because, in a vigorous growth economy, the value of an extra worker is higher than the combined costs of his hiring and firing. This is especially true since the reservoir of the unemployed is comprised of the unskilled, the young and women, whose remuneration is closer to the minimum wage. In the USA the minimum wage is 35% of the average wage (in France, it is 60%, in Britain it is 45% and in the Netherlands it is declining relative to the median salary). It is a fact that when wages are downward flexible – more lowly skilled jobs are created. A 1% rise in the minimum wage reduces the probability of finding a job by 2-2.5%.

There is a debate raging between the proponents of minimum wages (they reduce poverty and increase the equality of wealth distribution) and their opponents (they destroy jobs). The OECD stated clearly that wage regulation couldn't deal with poverty. The reason is that, as opposed to common opinion, few low paid workers live in low-income households and few low-income households have low paid workers. Thus, the benefits of the minimum wage, such as they are, largely bypass the poor.

Again, it is important to realize that unemployment is not a universal phenomenon. It is concentrated among the young and the unskilled. 11% of all people under the age of 25 in the USA are unemployed, almost three times the national average. A shocking 28% of those under the age of 25 are unemployed in France. The OECD says that a 10% rise in the minimum wage reduces teenage employment by 2-4% in both the high and low minimum wage countries.

In view of these facts, many countries (USA, UK, France) introduce "training wages" – actually, minimum wage exemptions for the young. But the minimum wage is still a high percentage of mean youth earnings (53% in the USA and 72% in France) and thus has a prohibitive effect on youth employment.

There is no disputing the facts that minimum wages compress the earnings distribution and reduce wage disparities between ages and sexes but they have no effect on inequality and the reduction of poverty among households. In US households with less than half the median household income only 33% of the adults have a low paid job (The equivalent figure in the Netherlands is 13% and in the UK – 5%). In most poor households no one is employed at all. On the other hand, many low earners have high paid partners. In the USA only 33% of earners of less than two thirds of the median wage live in households whose income is less than 50% of the national median household income. In the UK the figure is 10% and in Ireland – 3%. In each 5-year period only 25% of low paid Americans are in a poor family at some point (the figure is 10% in the UK).

These statistics show that minimum wages hurt poor families with teenagers (by making teenage employment prohibitive) while benefiting mainly the middle class.

Unemployment and Inflation

Another common misperception is that there is some trade off between unemployment and inflation. Both Friedman and Phelps attacked this notion. Unemployment seems to have a "natural" (equilibrium or homeostatic) rate, which is determined by the structure of the labour market. The natural rate of unemployment is consistent with stable inflation (NAIRU – Non Accelerating Inflation Rate of Unemployment).
Making more people employable at the prevailing level of wages can lower NAIRU. This should lead to a big drop in unemployment together with a tiny increase in permanent inflation. Phelps actually sought to lower NAIRU and raise the incomes of the working poor. Stiglitz calculated that the changing demographics of the labour force and the3 competition in markets for goods and jobs reduced NAIRU by 1.5% in the USA. R. Gordon, D. Staiger and M. Watson support these findings.
It emerges, therefore, that the gap between the estimated NAIRU and the actual rate of unemployment is a good predictor of inflation.

The Rhineland Model the Poldermodel and Other European Ideas

The Anglo-Saxon variety of capitalism is intended to maximize value for shareholders (often at the expense of all others, including the workers).
The Rhineland model is capitalism with a human face. It calls for an economy of consultation among stakeholders (shareholders, management, workers, government, banks, other creditors, suppliers, etc.)
In the Netherlands there is a Social and Economic Council. Its role is advisory and it is semi-corporatist. Another institution, the Labour Foundation is a social partnership between employees and employers.

But the Netherlands succeeded in reducing its unemployment rate from 17% to less than 5% by ignoring both models and inventing the "Poldermodel", a Third Way. Wim Duisenberg, the Dutch Banker (currently Governor of the European Central Bank), attributed this success to four elements:

Improving state finances
Pruning social security and other benefits and transfers

Flexible labour markets
Stable exchange rate.

The Dutch miracle started in 1982 with the Wassenaar Agreement in which employers' organizations and trade unions agreed on wage moderation and job creation, mainly through decentralization of wage bargaining. The government contributed tax cuts (which served to replace forgone wage increases). This fiscal stimulus prevented a drop in demand as a result of wage moderation. Additionally, restrictions were placed on social security payments and the minimum wage. For instance, increases in wages were no longer matched by corresponding increases in minimum social benefits. Working hours, hiring, firing and collective bargaining were all opened up to labour market forces. The strict regulation of small and medium size businesses (which drove up labour costs) was relaxed. Generous social security and unemployment benefits (a disincentive to find work) were scaled back. The Netherlands did not shy from initiating public works projects, though on a much smaller scale than France, for instance. The latter financed these projects by raising taxes and by increasing its budget deficit. The result could well be a reduction in employment in the long run (the effect of taxation). In the absence of monetary instruments such as devaluation (due to the EMU), the only remedy seems to be labour market flexibility.
Such flexibility must include a substantial adjustment in sickness benefits, vacation periods, maternal leave and unemployment benefits.

The long term (more than 12 months) unemployment in Europe constitutes 40% of the total unemployment. About HALF of the entire workforce under the age of 24 is unemployed in Spain. It is about 28% in France and in Italy. Germany, Austria and Denmark escaped this fate only by instituting compulsory apprenticeship. But the young become the kernel of long-term unemployment. This is because a tug of war, a basic conflict of interests exists between the "haves" and "have-nots". The employed wish to defend their monopoly and they form labour cartels. This is especially true in dirigiste Europe.

While in the USA, 85% of all service jobs created between 1990-5 paid more than the average salary – this was not the case in Europe. Add to this the immobility of labour in Europe and a stable geographical distribution of unemployment emerges, not ameliorated by labour mobility.

The Dutch model sought to battle all these rigidities:

The Dutch reduced social security contributions from 20% (1989) to 7.9% and they halved the income tax rate to 7% (1994).
They allowed part time workers to be paid less than full timers, doing the same job.
They abandoned sectoral central bargaining in favour of national bargaining – but more decentralized.
They cut sickness benefits, unemployment insurance (benefits) and disability insurance payments (by 10% in 1991 alone – from 80% to 70%).
They made it harder to qualify for unemployment (in 1995 no benefits were paid to those who chose to remain unemployed).
The burden of supporting the sick was shifted to the employer / firm. In 1996, the employer was responsible to pay the first year of sickness benefits.

Even the Dutch model is not a success. More than 13% of the population is receiving disability benefits. Only 62% of the economically active population is in the workforce (the rest dropped out of it).

But compare its experience to France, for instance.

The LOI ROBIEN prescribes that companies should be spared social security obligations for 7 years if they agree to put workers on part time work instead of laying them off. Firms abused the law and restructured themselves at the government's expense.

The next initiative was to reduce the working week to 35 hours. This was based on the "Lump of Labour Fallacy" – the idea that there is a fixed quantity of work and that reducing the working week from 39 to 35 hours will create more jobs. In reality, though, labour demand changes only in response to changes in productivity and in the workings of the labour market itself (rigidities). A cut in the working week reduces productivity and destroys jobs rather than foster job formation.

In Spain, a permanent employee fired is entitled to receive up to 45 days' pay multiplied by his or her tenure in years. The result is that firms are afraid to hire or fire workers. The government – faced with more than 22% unemployment – permitted part time contracts with less job protection. Today, 30% of all employed Spaniards work this way. Yet, this led to the creation of a two-tiered workplace where it is easier to fire the part-timer (even if he is valuable) rather than the permanent (and better earning) worker. Additionally, wages are thus disconnected from productivity.

MACEDONIA

Summary

As privatization progressed (however flawed in concept and in implementation), unemployment rose. It was the result of redundancies, bankruptcies and restructuring of the new private enterprises. By 1998, more than 92,000 workers were involved in direct privatization. There were more than 210,000 workers involved in all enterprises privatized.
The unemployment rate shot up from 23.5% in 1990 to more than 41% (foreign estimates) today (or 34% officially).
While officially the labour-force stands at c. 800,000 people, in reality it comprises only 600,000 (down from 680,000 in 1990). The number of central government employees has remained fairly stable at c. 17,000. About 2,400 are employed in cooperatives, another 22,600 in the pure private sector and c. 92,000 in firms with mixed ownership.
About 4000 are in government subsidized retraining programs at any given moment. Others are retrained within the Labour Redeployment program run by the Agency of Privatization.
Unemployment compensation recipients rose from 5,400 in 1990 to more than 50,000 in 1997.
Mandatory employer payroll tax contribution is 20% (pension) and the employee pays 8% to the Health Fund.

Numerous laws and legal instruments govern employment and unemployment in Macedonia. Among them:

The Law on Labour Relations, the Law on Employment, the Collective Bargaining Agreement, the Law on Pension and Disability Insurance, the Law on Health Protection at Work, the Law on Labour Inspection, the Law on Industrial Action and the July 1997 Law on Employment and Insurance in the case of Unemployment (now largely defunct).

The most important law by far is the Law on Labour Relations. It regulates the terms and manner of entering employment, the rights of employees, job positions, salaries and other compensation. Unfortunately, it is an extremely general and vague law. The collective agreements, the second most important legal instruments, are as general and, in any case, they pertain mainly if not solely to their signatories.

The collective agreements usually provide for an “employment trial period”. But the law itself equates the rights of the temporarily employed to those of the permanently employed.

The 1997 law allowed the hiring of workers without the assistance or approval of the Employment Bureau. It demanded that the unemployed should actively seek gainful employment to qualify to receive unemployment benefits. It reduced both the amount and the duration of unemployment benefits payable to certain groups of unemployed workers. It introduced payments of pension contributions and health care fund contributions of registered unemployed workers who are not covered elsewhere (for example, by their parents, or their spouse).
The law eliminated special one-time payments to the unemployed who could claim a right to a pension equal to 40% of the average monthly net wages. It mandated the monthly registration of recipients of benefits and the bi-annual registration of all other unemployed.
Under this law, workers with 15 years of participation in the workforce and contributions to the fund will receive unemployment benefits for 6 months. Those with more than 25 years will receive unemployment benefits indefinitely.
Additionally, employers were allowed to use up to 18 months of unpaid payroll taxes to subsidize the wages of previously unemployed workers hired by them. This provision has been eliminated.

Analysis

There are a few statistical methods used to gauge employment-related data. The easiest, most immediate but least reliable way is to count the number of people registered with the Employment Bureau (“claimants”). A claimant count tends to underestimate unemployment by up to 50% (!) because many people are so desperate that they do not bother to register with the unemployment bureau.
The second method which is more demanding, resource consuming and has a time lag – is also more rigorous and a much better gauge of reality. It is the household survey. Britain, for instance, estimates unemployment using BOTH methods.

The Statistical Bureau in Macedonia defines and Employee as someone who is employed at least one hour in the week prior to being sampled, whether in a part time job or in a permanent, full time one. People attending an apprenticeship program or sentenced to correctional labour are excluded (unlike in Germany, Austria or Denmark).
It follows that the unemployed are people seeking employment. Anyone without a job, but previously employed and recorded in an employment office is defined as an “earlier employed person”. Applicants who held no job before are “first time applicants”.
Self-employed workers are all people included in TRUD-15, a quarterly report filed with the Pension and Disability Fund. This report includes only those currently insured and it, too, does not cover vocational students and apprentices. It is, therefore, safe to assume that the number of the self employed in Macedonia is larger than reported.

If the index representing total employment in Macedonia in 1989 was 100.3 – it was 62 in 1997. The figure for women was marginally higher.

Total employment in the economic sector went down by more than 40% between 1989-97.
The strongest declines were in trade and in tourism and catering. But severe drops were registered in mining and industry, agriculture and fisheries, forestry (which was already depressed in 1989). Only water treatment and management and crafts and trades – actually increased. But construction, transport and communications, and, to a lesser extent, housing, utilities, landscaping, financial, technical and business services also declined.

Total employment in the non-economic sector was almost unaffected !!!
Even in sectors such as education, science, culture and information and healthcare and social services, the effects were minimal.
And in administration and politics there was actually an INCREASE.

The total employed declined from c. 517,000 (1989) to less than 320,000 in 1997.
The total in the economic sectors declined from 430,000 to 270,000.
The total in the non-economic sectors declined from c. 90,000 to 84,000.
The female population reacted more strongly to the trend. Female employment declined from 133,000 in 1995 to less than 122,000 in 1997.
Less than 73,000 women were employed in the economic sector in 1997, compared to more than 84,000 in 1995. In the non-economic sector, the

figures are 49,000 and 49,000 respectively (in other words, employment in the non economic sector remained stable while even as it declined strongly in the economic sector).

To summarize:

In 1997, all employed people numbered c. 319,453 (of whom 121,666 were women).
In the economic sector: 235,206 (72359)
In companies with social ownership: 185522 (70,094), of which 121,663 were in the economic sector (30,835 women).

In privately owned firms the figure is – 22, 593 (of whom 21,910 in the economic sector). Women accounted for 10,492 (10,252 in the economic sector) of this number.
2414 workers (629 women) worked in cooperatives (all part of the economic sector).
Firms with mixed ownership employed 91,988 (31,854 women).
Of these employees, 88,799 (30,548) were in the economic sector.
State owned firms, institutions and organs employed 16,936 workers (8,597 women). Of these only 420 were engaged in economic activities (95 women).

The (monthly) demand for workers declined from 6,619 in 1989 to 1,907 in 1996. Concurrently, monthly layoffs doubled from 1,408 to 2,805. First time applicants for unemployment benefits peaked monthly at 3,847 in 1992 and declined to 2,073 in 1996. This is a bad sign – it indicates growing desperation among the long term (more than 12 months) unemployed.
New hiring virtually collapsed from 1,506 monthly in 1989 to 972 in 1997.
Yet, this grim picture has to be balanced by mentioning that many people are unofficially employed and not registered anywhere.

The total number of employment seekers (in parentheses – the number of women) has gone up from 150,400 (78,075) in 1989 to c. 253,000 (115,000) in 1997. But this is misleading because fully 200,000 people have dropped from the workforce and have given up seeking employment.
First time applicants went up from 116,000 to 186,000 in the same period.
In 1989 only 75,000 unskilled workers were jobless. In 1997 the number almost doubled to 133,000.

And while only 5,800 received unemployment compensation in 1989 – their numbers multiplied by 10 (!) and reached over 50,000 in 1997.
Due to improvements in education on the one hand and to growing desperation on the other hand – almost no people younger than 18 years were looking for jobs in 1997 (only 1,700) compared to 1989 (11,900).
To a large extent, the same is true for the 18-25 age groups. 70,400 sought work in 1989 versus 60,100 in 1997.
But the pernicious and lasting effects of unemployment were more than evident in the next age groups. In the age groups 25-40 the number of e4mployment seekers increased from 55,200 to 135,000 in the same period.
The number of people between the ages 40-50 seeking work quadrupled (!) from 10,500 to 39,500. The same goes for people over the age of 50 (from 5,500 to 21,500).
By far the largest group of employment seekers was people with no previous work experience (128,400 in 1989 and 180,700 in 1997).
The situation was much better in all other groups of work experience:
Less than 1 year experience – from 6,300 (1989) to 7,900 (1997)
1-2 years – 3,500 to 5,000
2-3 years – 2,500 to 3,600
3-5 years – 3,400 to 5,700
5-10 years – 5,300 to 13,200
10-20 years – 3,200 to 18,200
20-30 years – 800 to 11,700
The number of unemployed people with more than 30 years experience went up – from 100 in 1989 to 3,100 in 1997.

The time structure of unemployment has also worsened.
In 1989 22,900 found employment within 6 month. In 1997 – there were only 6,100.
Within 6-9 months – from 8,300 to 4,100
Within 9-12 months – from 8,000 to 5,000
Between 1-3 years – from 51,300 to 71,600
Between 3-5 years – from 28,500 to 49,500 (!!!)
Between 5-8 years – from 20,700 to 49,900 (!!!)
More than 8 years – from 13,800 to 71,400 (!!!!!!!)

In other words, most of the employment seekers have to wait for years before they gain employment. About 30% of them wait for more than 8 years. This is nothing short of disastrous.

Unemployment is concentrated, therefore, among the relatively young and without work experience. Additionally, the skilled and highly skilled workers have lesser difficulties in finding a job. Only 46,000 of them were employment seekers in 1997 (compared to 26,000 in 1989). The semi-skilled and those with elementary school are the most vulnerable, with 132,800 employment seekers (versus 75,200 in 1989). Even those with secondary school training fared badly, with 74,200 employment seekers (versus 49,300 in 1989).

The Workforce Survey

Macedonia has executed a workforce survey for the first time in 1996.
In this survey the following definitions were used:
Economically Active
The combined numbers of the employed and the unemployed
Employed
People aged 15 or more who worked for a wage (in cash or in kind) or had income during at least one hour during the reference week
Or
Were temporarily absent from work with a formal job assignment
Or
Were helping on the family property or enterprise without wages
Self Employed
An employer who operates his or her own enterprise or engages independently in a profession or trade or owns a farm and employs other people
Or
An employer who works for a private or public employer
Or
Own account worker – a person who operates his or her own enterprise or engages independently in a profession or trade but does not employ other persons
Or
An unpaid family worker – a person who works without pay in an enterprise, a trade, or on a farm owned by another member of his or her household.
Unemployed
Was without work during the reference week and …
Was seeking work, i.e. has taken specific steps to find a job and …
Was prepared to accept a job in the reference week or in the following week

Changes in the Labour Force
The activity rate as the ratio of the labour force in the total population above the age of 15 years
The employment rate as the ratio of the number of workers employed to the total population above the age of 15 years
The unemployment rate as the ratio between the numbers of the unemployed to the total labour force.

As of 4/97:

The total activity rate was 53.7% (66.5% for men and 41.2% for women). But this number hides major disparities in age groups. For instance: the activity rate of the age groups 35-39 was as high as 80.5% while for adolescents between the ages of 15-19 it was only 22.7% and for people between the ages 55-59 it was 36.5%.

The total employment rate was 34.4% (44.6% men and 24.4% women). Again, there were great disparities between age groups. The employment rate for ages 40-44 was 62.6% - while for ages 15-19 it was only 4.4% and for ages 20-24 it was a meager 18.2%.

The total unemployment rate was 36% (33% for men and 40.8% - women). More than 80.4% of the population aged 15-19 was unemployed, but only 20.2% of 40-44 and only 12% of 55-59.

The total population above the age of 15 at the time of the survey was 1,489,625 (men – 736,977 and women – 752,648).

The total labour force was 800,513 (men – 490,122, women – 310,392).

The total number of unemployed was 288,213 (men – 161,717, women – 126,496).

The total number of employed people was 512,301 (men – 328,404, women – 183, 896).

Outside the labour force there were 689,112 people (men – 246,856, women – 442,256).

To summarize in terms of percentages:

Ages 15-19 – 11% of the population – 4.6% of the labour force – 1.4% of the employed – 10.3% of the unemployed – 18.3% of those outside the work force.
Ages 20-24 – 10.3% - 12.4% - 5.5% - 24.8% - 7.9%
Ages 25-29 – 9.7% - 13.8% - 10% - 20.7% - 5%
Ages 30-34 – 9.5% - 13.8% - 13.4% - 14.3% - 4.5%
Ages 35-39 – 9.8% - 14.7% - 16.8% - 11% - 4.1%
Ages 40-44 – 9.7% - 14.1% - 17.6% - 7.9% - 4.5%
Ages 45-49 – 9% - 12% - 15.4% - 6% - 5.5%
Ages 50-54 – 6.9% - 7.3% - 9.8% - 2.8% - 6.4%
Ages 55-59 – 6.2% - 4.2% - 5.8% - 1.4% - 8.5%
Ages 60-64 – 6.7% - 1.8% - 2.6% - 0.4% - 12.4%
Ages 65-69 – 5.1% - 0.5% - 0.8% - 0% - 10.4%
Ages 70-80 – 0.4% - 0.3% - 0.3% - 0.2% - 0.6%

In the population above the age of 15 years as a whole, there were c. 104,000 without education, 199,000 with incomplete education, 474,000 with primary education, 151,000 with 3 years or less of secondary education, about 369,000 with 4 years of secondary education and c. 55,000 with a higher education. There were 81,100 with university degrees, 2,400 masters, 1,200 doctorates and 53,400 “other”.

Yet, the numbers in the labour force were very different and reflected the absolute disadvantage of the uneducated, unskilled, semi skilled and even those with only secondary education.

Those without education were 20,000 in the labour force, 12,000 among the employed, 8,000 among the unemployed (the employed and unemployed make up the labour force) - and a staggering 84,000 outside the workforce altogether.

The respective figures for those with incomplete education:
62,300, 44,200, 18,100, 136,300

For those with primary education (notice the marked improvement in employability!!!):
220,800, 118,000, 103,100, 253,100

And for those with 3 years of secondary education:

106,100, 64,800, 41,200, 45,100

Those with only one additional year of secondary education already look much better:
263,000, 176,000, 87,000, 106,300

And those with a higher education maintain European rates of unemployment:
41,000, 32,700, 8,300, 13,400

Those with university degrees:
67,200, 54,100, 13,100, 13,900

Masters:
1,630, 1,560, 70

Doctorates:
1,156, 1,086, 70, 71

76.3% of all men were employed (82.6% of women), 4.3% were employers (1.7%), 4.9% were self- employed (2.5%), 3.4% worked in family owned businesses (7.5%), 10.8% of all men worked in agriculture (and 5.6% of women).

Men made up 62.3% of the employed (women – 37.7%), 82.2% of all employers (17.8%), 78% of the self employed (22%), 45% of those employed in family businesses (55%), 77.5% of those employed in agriculture (22.5%).

The Situation in 8/99

Economic underdevelopment, agrarian over-employment, external shocks and an unrestructured economy led to an increase in both structural and cyclical employment.
The supply side is still composed mainly of new entrants, women and unskilled or semi-skilled labour as well as educated workers.
The demand structure is incompatible with the supply. It is made of replacement jobs, new jobs (mainly in labour intensive industries), jobs generated by foreign entities.

The number of the unemployed broke yet another record in 1999 and reached 344,472 people. Of these, almost half – 154,000 – were unskilled. But the unemployed included 5 doctors, 34 holders of master's degrees and 11,400 with higher education. About 33,000 of these numbers were made "technologically redundant" – the euphemism for being laid off due to restructuring of enterprises or their closure.
By comparison, the number of employed people was only 316,000.
In the first 8 months of 1999 alone there were 6,000 new unemployed per month versus a monthly average of 3,700 in 1998. This increase is attributed to the inclusion of people who did not bother to register with the Employment Bureau in the past.

The fiscal burden increased dramatically as contributions deteriorated to 25% of the Employment Bureau's financing while the state budget contributed the remaining 75%, or 3 billion MKD (equal to 100 million DM or c. 1.7% of GDP). The Employment Bureau also pays health insurance for about 200,000 unemployed workers.

The Labour Unions

The Association of Trade Unions in Macedonia (ATUM or CCM in the Macedonian acronym) is a voluntary organization, which encompasses 75% of all the employed workers in Macedonia as its members.

It is organized in the level of firms and institutions and has in excess of 2600 chapters. Additionally, it has about 150 chapters in the municipalities and in the various industrial sectors (all 15 of them).

The typical Macedonian trade union is not supported by the government and is entirely financed by its membership fees (self sufficient).

The first collective agreement was signed in 1990 at which time the idea of Economic Social Council was floated as well as the idea of a tripartite (government+employees+employers) dispute settlement mechanism.

The Labour Relations act was passed in 1994 and instituted national collective agreement for the economic sector between CCM and the Board of Employers of the Economic Chamber of Commerce of Macedonia. Another general collective agreement covered all public services, public companies, state organs, local authorities and legal persons performing non-

economic activities. This latter general collective agreement was signed between CCM and the Government of the Republic of Macedonia.
Yet a third set of more than 20 collective agreements between CCM and various organs of the Chamber of Commerce and ministries covered other sectors.

The Future of Unemployment in Macedonia

Public enterprise restructuring, privatization and reform are likely to increase unemployment benefits by 200-300 million MKD annually (assuming only 2,000-3,000 workers are fired, a very conservative assumption as there are 18,000 workers in the 12 major loss making state firms, whose closure was demanded by the IMF).

Unemployment is very dependent on productivity and GDP growth. The World Bank predicts that with a GDP growth of 0%, the total expenditures on unemployment benefits could equal 2.3% of GDP. Even if GDP were to grow by 4% annually, their projections show unemployment benefits equaling 1.6% of GDP.

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Appendix – The Keynesian view of Unemployment, Stabilization Theory and Full Employment Budgeting

(From The Encyclopedia Britannica 1999 Edition)

A model of a Keynesian depression.

Involuntary unemployment.

Another possible cause of a general depression was suggested by Keynes. It may be approached in a highly simplified way by lumping all occupations together into one labour market and all goods and services together into a single commodity market. The aggregative system would thus include simply three goods: labour, commodities, and money. The Table provides a rough outline (a full treatment would be both technical and lengthy) of the development of a "Keynesian" depression. One may begin by assuming (line 1) that the system is in full employment equilibrium--that is, prices and wages are at their equilibrium levels and there is no excess demand. Next the model may be put on the path to disaster by postulating either (1) some disturbance causing a shift of demand away from commodities and into money or (2) a reduction in the money supply. Either event will result in the situation described in the Table as State 2, but the one assumed is a reduction in the money supply by, say, 10 percent. The result is shown in the right-hand column of the Table, where the quantity of commodities supplied minus the quantity demanded multiplied by the price level (p) is equal in value to the excess demand for money.

If money wages and money prices could immediately be reduced in the same proportion (10 percent), output and employment could be maintained, and profits and wages would be unchanged in "real" terms. If money wages are initially inflexible, however, business firms cannot be induced to lower prices by 10 percent and maintain output. In this example they maintain prices in the neighbourhood of the initial price level--prices, then, are also "inflexible"--and deal with the excess supply by cutting back output and laying off workers. Reducing supply eliminates the excess supply of commodities by throwing the burden of excess supply back on the labour market. Thus, output and employment (which are "quantities") give way before prices do. This brings us to State 3 where, as in the Table, the excess supply of labour times the money wage rate (w) equals the excess demand for money in value.

If, with the system in this state, money wages do not give way and the money supply is not increased, the economy will remain at this level of **unemployment** indefinitely. One should recall that the only explanation for persistent **unemployment** that the pre-Keynesian economics had to offer was that money wages were "too high" relative to the money stock and tended to remain rigid at that level.

Money wages might, nevertheless, give way so that, gradually, both wages and prices go down by 10 percent--that is to say, a reduction of the size that would have solved the entire problem had it occurred immediately (*before* **unemployment** could develop). This is shown in the last line of the Table, which represents (albeit crudely) what Keynes described as a state of "involuntary **unemployment**" and explained in terms of a failure of "effective demand."

In State 4, it is assumed, the excess demand for money is zero. Hence there is, at least temporarily, no tendency for money income either to fall further or to rise. The prevailing level of money income is too low to provide full employment. The excess supply of labour and the corresponding excess demand for commodities (of the same market value) show State 4 to be a disequilibrium state. The question is why the state tends to persist. Why is there no tendency for income and output to increase and to absorb the **unemployment**? Specifically, why does not the excess demand for commodities induce this expansion of output and absorption of **unemployment**?

Basically, the answer is that the unemployed do not have the cash (or the credit) to make the excess demand for commodities *effective.* The traditional economic theory would postulate that, when actual output is kept at a level below that of demand, competition between unsuccessful potential buyers would tend to raise prices, thereby stimulating an expansion. But this does not occur. The unemployed lack the means to engage in such bidding for the limited volume of output. The excess demand for commodities is not effective. It fails to produce the market signals that would induce adjustments of activities in the right direction. Business firms, on their side of the market, remain unwilling to hire from the pool of unemployed--even at low wages--because there is nothing to indicate that the resulting increment of output can actually be sold at remunerative prices.

Keynes called this "involuntary **unemployment**." It was not a happy choice of phrase since the term is neither self-explanatory nor very descriptive. Some earlier analysts of the **unemployment** problem had, however, tended to stress the kind of deadlock that might develop if workers held out for wages exceeding the market value of the product attributable to labour or if business firms insisted on trying to "exploit" labour by refusing to pay a wage corresponding to the value of labour's product. With the term "involuntary **unemployment**," Keynes wanted to emphasize that a thoroughly intractable **unemployment** situation could develop for which neither party was to blame in this sense. His theory envisaged a situation in which both parties were willing to cooperate, yet failed to get together. An effective demand failure might be described as "a failure to communicate." (see also *Index*: labour economics)

The failure of the market system to communicate the necessary information arises because, in modern economies, money is the only means of payment. In offering their labour services, the unemployed will not demand payment in the form of the products of the individual firms. If they did, the excess demand for products would be effectively communicated to producers. The worker must have cash in order to exercise effective demand for goods. But to obtain the cash he must first succeed in selling his services.

Effects of business contraction.

When business begins to contract, the first manifestation is a decrease in investment that causes **unemployment** in the capital goods industries; the unemployed are deprived of the cash wage receipts required to make their consumption demands effective. **Unemployment** then spreads to consumer goods industries. In expansion, the opposite occurs: an increase in investment (or in government spending) leads to rehiring of workers out of the pool of unemployed. Re-employed workers will have the cash with which to exert effective demand. Hence business will pick up also in the consumer goods industries. Thus the theory suggests the use of fiscal policy (an increase in government spending or a decrease in taxes) to bring the economy out of an **unemployment** state that is due to a failure of effective demand. (see also *Index*: business cycle)

Another observation may be made on Keynes's doctrine of effective demand. The fact that the persistence of **unemployment** will put pressure on wages also turns out to be a problem. The assumption in the foregoing discussion was that money wages were at the equilibrium level. **Unemployment** will tend to drive them down. Prices will tend to follow wages down, since declining money earnings for the employed will mean a declining volume of expenditures. In short, both wages and prices will tend to move away from, rather than toward, their "correct" equilibrium values. Once the economy has fallen into such a situation, Keynes pointed out, wage rigidity may actually be a blessing--a paradoxical conclusion from the standpoint of traditional economics. (see also *Index*: production)

Stabilization theory.

The new stabilization policy needed a theoretical rationale if it was ever to win general acceptance from the leaders of public opinion. The main credit for providing this belongs to Keynes. In his *General Theory of Employment, Interest and Money* (1935-36) he endeavoured to show that a capitalist economy with its decentralized market system does not automatically generate full employment and stable prices and that governments should pursue deliberate stabilization policies. There has been much controversy among economists over the substance and meaning of Keynes's theoretical contribution. Essentially, he argued that high levels of **unemployment** might persist indefinitely unless governments took monetary and fiscal action. At that time he believed that fiscal action was likely to be more effective than monetary measures. In the deep depression of the 1930s, interest rates had ceased to exert much influence on the ways in which owners of wealth disposed of their funds; they might choose to hold larger cash balances instead of spending more money as the traditional theory had suggested. Nor were investors inclined to take advantage of low interest rates if they could not find profitable uses for borrowed funds, particularly if their firms were already suffering from excess capacity. Keynes's pessimistic view of monetary policy had a strong influence on economists and governments during and immediately after World War II, with the result that monetary policy was not tried very much during the 1940s. It was often forgotten during the policy discussions of the time that Keynes's views on the efficacy of monetary policy were related to the particular situation of the 1930s.

Another influential idea embodied in Keynes's writing was that of economic stagnation. He suggested that in the advanced industrial countries people tended to save more as their incomes grew larger and that private consumption tended to be a smaller and smaller part of the national income. This implied that investment would have to take a continually larger share of the national income in order to maintain full employment. Since he doubted that investment would rise sufficiently to do this, Keynes was rather pessimistic about the possibility of achieving full employment in the long run. He thus suggested that there might be some permanent tendency to high levels of **unemployment**. This also had considerable influence on economic policy during the early postwar period; it was some time before those in decision-making positions realized that inflation, rather than stagnation and **unemployment**, was to be the main problem confronting them.

The desirability of pursuing policies to maintain high levels of employment was generally accepted in most industrial countries after the war. In 1944 the British government stated in its White Paper on Employment Policy that "the government accept as one of their primary aims and responsibilities the maintenance of a high and stable level of employment after the war." One of the most influential British economists at this time was Sir William Beveridge, whose book *Full Employment in a Free Society* had a strong impact on general thinking. Similar ideas were expressed in the United States in the Employment Act of 1946, which stated: "The Congress hereby declares that it is the continuing policy and responsibility of the Federal Government to . . . promote maximum employment, production and purchasing power." The Employment Act was less specific as to policy than the British government's White Paper, but it established a council of economic advisers to assist the president and called upon him to present to every regular session of Congress a report on the state of the economy. The president was also required to present a program showing "ways and means of promoting a high level of employment and production." Similar programs were adopted in other countries. In Sweden in 1944 the Social Democrats published a document somewhat similar to the British White Paper, and other such declarations were made in Canada and Australia.

Full Employment Budget

Although the idea of budget balance in the administrative budget has been the dominant consideration in the budgetary policy of most countries, it has gradually been realized that such a concept may be inappropriate when external shocks such as exchange rate movements or a world recession occur. Because varying levels of unemployment are a major reason why expenditures may change without comparable change in the public sector output, the concept of a full-employment budget has emerged. This type of budgeting is based on receipts and expenditures that would prevail under conditions of full employment. The approach views the actual expenditures and receipts for the coming year as of secondary importance; it assigns primary importance to the influence of the budget on the national economy. In time of recession a budget deficit may thus be presented as a necessary step toward achieving a balanced budget at full employment. Ideally, the budget should include estimates of expenditures and revenues at full employment, and also estimates of the same items at the anticipated level of employment. These ideas have been extensively used in the United States.

An analogous procedure could be used with respect to inflation, but this idea is still far from acceptance, because governments are no less reluctant to anticipate inflation than they are to budget for **unemployment**.

The U.S. full-employment budget was developed during World War II and has been regularly published in the president's annual Economic Report since 1962. Other countries have adopted similar measures as an aid to policy-making; for example, The Netherlands' "structural budget margin," developed in the early 1960s, and West Germany's "cyclically neutral budget," calculated by its German Council of Experts beginning in the late 1960s.

Contract with the People of Macedonia

We hereby declare that every free citizen of the Republic of Macedonia has the right to earn a decent and secure living;

The right to provide for his family, to educate his children, to build a home for his loved ones, not to burden them as he grows old;

The right to contribute as a useful citizen to the welfare and progress of his community and of his country;

Every citizen, in other words, has the immutable and inalienable right to look forward to a better future.

We, the government, undertake to put the fulfilment of these natural rights at the top of our agenda, as our first and foremost priority.

We, the government, undertake to intervene in the economy of this country just in order to make such intervention forever redundant and unnecessary;

To re-invent a vigorous, vibrant private sector, which lives from generation to generation through the entrepreneurial spirit of our people;

To encourage the pursuit of happiness through prosperity and well-being, of welfare through employment, of education through work, of good neighbourliness which is the inevitable result of freedom of enterprise and of initiative.

To achieve these ends, we undertake, as an inviolable contract between us and each and every citizen of this country, regardless of race, gender, or religion - to implement the following measures once we are elected to manage this nation on the way to membership in the club of modern nations.

WE PLEDGE

To establish a national permanent Labor Steering Committee composed of representatives of the government, business, labor, and the academy.

The Committee will recommend to the government policies regarding the labor market, unemployment, retirement and unemployment benefits, and labor-related taxation.

The Committee will convene periodically and monitor progress in the aforementioned areas.

The government undertakes to achieve the following during its mandate:

Get the Real Picture

A limited grace period will be declared by the state on violations of worker registration by employers. All employers will be given 60 days to register all their unregistered and unreported workers – without any penalty, retroactive or prospective.

Afterwards, labour inspectors will embark on sampling raids. Employers caught violating the labour laws will be heavily penalized. In severe cases, closures will be enforced against the workplace.

The Minister of Justice, in collaboration with the court system, will accord the persecution of violating employers a high and urgent priority.

The number of trade inspectors will at least be tripled, as per standards in other developing countries.

The statistics Bureau will propose and the government will adopt a Standard National Job Classification.

Unemployment Benefits

Health insurance will be separated from unemployment benefits. Unemployment benefits and health benefits will be paid independently of each other.

The government will implement four pilot projects with the aim of extending them nation-wide, should they prove successful:

A pilot project will be attempted to provide lump sum block grants to municipalities and to allow them to determine eligibility, to run their own employment-enhancement programs and to establish job training and child care assistance. An assessment of the success or failure of this approach in a limited number of municipalities can be done after one year of operation.

The second pilot project will provide participating unemployed workers with a choice. They could either receive a lump sum or be eligible for a period of unemployment benefits. In other words: they will be allowed to convert all or part of their unemployment benefits to a lump sum. The state will provide matching funds if the person chooses to establish a business, alone or in partnership with other unemployed people (provide credits of 1 euro or a state guarantee for 1 euro against every 1 euro invested by the unemployed person).

The third pilot project involves the formation of private unemployment insurance plans to supplement or even replace the insurance (compensation, benefits) offered by the Employment Fund. In many countries, private unemployment insurance is lumped together with disability and life insurance – all offered by the private sector within one insurance policy.

The fourth and last pilot project involves the formation of "Voucher Communities". These are communities of unemployed workers organized in each municipality. The unemployed exchange goods and services among themselves. They use a form of "internal money" – a voucher bearing a monetary value. Thus, an unemployed electrician can offer his services to an unemployed teacher who, in return will give the electrician's children private lessons. They pay each other with voucher money. The unemployed members of these communities are allowed to use voucher money to pay for certain public goods and services (such as health and education). Voucher money will not be redeemed or converted to real money – so it has no inflationary or fiscal effects, though it does increase the purchasing power of the unemployed.

Encouraging Employers to Hire the Unemployed

The government will implement two types of incentive schemes intended to encourage employers to hire hitherto unemployed workers.

In the first scheme the employer will receive increasing participation in the wage costs of the newly hired formerly unemployed workers – more with every year the person remains employed. Thus, a graduated incentive scale will be established by law.

In the second scheme, employers must undertake to employ the worker a number of months equal to the number of months they received benefits for the worker and with the same salary. The incentives to the employer were to be paid out every second month of employment. Thus, the employer would have an incentive to continue to employ the new worker.

Employers will receive benefits for a new worker only if he was registered with an unemployment office for more than 12 consecutive months preceding his new employment – or if he or she is a recipient of welfare payments and social benefits through the Employment Bureau. This is much like the very successful American and British schemes of “Welfare to Work”.

We will link the size of investment incentives (including tax holidays) provided to domestic and foreign investors alike to the potential increase in employment deriving from the investment project.

Encouraging Labour Mobility

The Employment Bureau will offer financial and logistical assistance in relocation and incentives to relocate to areas of high labour demand. The needs of the unemployed worker’s family will also be considered and catered to (kindergarten or school for his children, work for his wife and so on).

Administrative Measures: Early Retirement

An employer with technologically redundant employees will be allowed to offer to them the following retirement scheme:

5. They will be considered pensioners for the purposes of every applicable law and benefit. Thus, they will not be “fired” but “retired”.
6. Upon retirement, they will receive a lump sum, which will represent their compensation for their accumulated work tenure, in accordance with the law (=their severance fee).
7. They will begin to receive monthly pension payments, as per their entitlement, work tenure, level of last salary, etc. only when they reach the age prescribed by law (63 – 65) – like every other pensioner.

Offering a severance package, which includes a handsome up-front payment combined with benefits from the Employment Fund, will encourage early retirement. A special Early Retirement Fund will be created by setting aside receipts from the privatization of state assets and from dividends received by the state from its various shareholdings, to provide for severance fees to those of early retired.

Administrative Measures: Public Education and Dissemination of Information – The Functioning of the Employment Bureau

The dissemination of information regarding employment practices, opportunities, market requirements, etc. will be a prime component of the activity of the Employment Bureau. It will transform itself from a mere registry of humans to an active exchange of labour. This will be done through the establishment of computerized employment exchanges and intermediation.

We will change the image of the Employment Bureaus from places where the unemployed merely register and receive benefits to a labour exchange by publishing examples of successful job placements.

We will disseminate information regarding the rights of the unemployed, their obligations and services available to them and to publish weekly or daily employment bulletins.

We will organize seminars for both unemployed and employers in which the rights of the unemployed, their obligations and the services offered to them and to their potential employers will be described. This will be combined with employment fairs. Separately, the unemployed will be taught in these seminars how to find a job, prepare a curriculum vita (biography), entrepreneurial skills, preparation of business plans, marketing plans, feasibility studies, credit applications and interview skills.

The Employment Bureaus in collaboration with local authorities will organize job clubs, labour exchanges and employment fairs – places where employers can meet potential employees, currently unemployed.

We will oblige the mass media by law to dedicate at least an hour weekly to unemployment: to disseminate information, to organize a televised labour exchange, a televised entertainment show (where employers will offer a job to the winner) and so on.

We will link the National Employment Bureau, the Health Fund, the Pension and Disability Insurance Fund and the Social Security Office. We will cross and compare information from all these bureaus on a real time basis (to specifically cater to the needs of an unemployed person) and on a periodical basis for supervision and control purposes.

The National Employment Bureau will maintain a regular presence in employment fairs abroad. Many fairs are global and work can be obtained in them for Macedonian workers (especially the more skilled ones).

A National employment Contract

A “National Employment Contract” will be signed between the government, the trade unions, the employers (Chamber of Commerce) and the Central Bank.

The employers will obligate themselves to fixed quantitative targets of job formation over a number of years against the receipt of the unemployment benefits of the newly hired (or another form of subsidy or tax incentive) and/or a discount in social contributions.

The employees will agree to a freeze on employee compensation, a separate treatment of part time labour (exclusion from collective bargaining), flexibility on minimum wages, job security, hiring and firing procedures, social and unemployment benefits, indexation of wages and benefits, the right to strike and the level of salaries.

The National Employment Contract will aim to constrain inflation by limiting wage gains to productivity gains (for instance, through dividends on the shareholdings of the workers or through stock options schemes to the workers).

In return, ***the trade unions*** will be granted effective control of the shop floor and participation in the board of directors of firms.

A tripartite social contract will increase employment by moderating wage demands but the unions will have a say with regards to policies concerning unemployment insurance, employment protection, early retirement, working hours, old age pensioners, health insurance, housing, taxation, public sector employment, vocational training, regional aid and subsidies to declining and infant industries.

The government will strive to emulate the Scandinavian and German model of co-determination. Workers will be granted shop floor representation even in non-wage related matters (such as the work organization).

We will institute an "Income Policy" intended to ensure that both labour and management are held responsible to maintain price stability. The government may intervene in the negotiations and it reserves the right to consider a wage freeze, or wage and price controls. We will consider granting the courts the right to set certain wages. Wages and unemployment benefits are perceived as complementary economic stabilizers (contra the business cycle).

We will consider a Guaranteed Wage Plan. Employers will assure minimum annual employment or minimum annual wages or both to those employees who have been with the firm for a minimum of time.

Firms and trade unions will forego the seniority treatment (firing only the newly hired). Firms will be given a free hand in hiring and firing employees regardless of tenure.

Labour Disputes Settlement

Future collective agreements will all be subordinated to the National Employment Contract.

All future agreements will include a compulsory dispute settlement mechanism through mediation and arbitration. All labour contracts must include clear, compulsory and final grievance procedures through conciliation (a third party brings management and labour together to try and solve the problems on their own), mediation (a third party makes nonbonding suggestions to the parties), arbitration (a third party makes final, binding decisions), or Peer Review Panels – where management and the employees together rule on grievances.

Strikes will be allowed only after the failure of obligatory arbitration, mediation, or conciliation procedures.

We will allow out of court settlement through arbitration, an employees' council, trustees or an employer-employee board of disputes arising from the dismissal of employees.

Unconventional Modes of Work

This government will encourage labor market flexibility by allowing unconventional modes of work.

We will introduce the concept of “special leave” with 60% of the maximum unemployment benefits paid and no interruption in social security incurred - providing the worker uses the time for job training, a sabbatical or further education, or a parental leave. This can be extended to taking care of old people (old parents or other relatives) or the terminally ill though only for up to 2 months.

Part time workers will receive the same benefits as regular workers in case of layoffs and wrongful dismissals. After 6 months with the same employer, they will be entitled to retirement and health benefits.

Special treatment will be granted by law and in the collective agreements to night, shift and weekend work (for instance, no payment of social benefits).

All modes of part-time, flextime, from home, seasonal, casual and job sharing work will be encouraged. For example: two people sharing the same job will be allowed to choose to be treated, for tax purposes and for the purposes of unemployment benefits, either as one person or as two persons and so will shift workers.

The law will be altered to remove the current upper limit of 6 months imposed on temporary employment. Employers and employees will be allowed to contract freely, for any length of time they find appropriate (and providing they register their contract lawfully).

Macroeconomic Policies

We will introduce a "Full Employment Budget" which adjusts the budget deficit or surplus in relation to effects of deviations from full or normal unemployment.

Apprenticeship, Training, Retraining and Re-qualification

Most of the unemployed can be retrained, regardless of age and level of education.

The law will be amended to allow for apprenticeship and training with trainee sub-minimum wages.

The massive retraining and re-qualification programs needed to combat unemployment in Macedonia will be undertaken in collaboration with the private sector. The government will train, re-train, or re-qualify the unemployed worker – and the private sector firms will undertake to employ the retrained worker for a minimum period of time following the completion of his or her training or retraining. The government will act as the educational sub-contractor of the business sector and a catalyst of skill acquisition for the under-capitalized private sector. Small business employers will have the priority in this scheme.

There will be separate retraining and re-qualification programs according to the educational levels of the populations of the trainees and to the aims of the programs. Thus, vocational training will be separated from teaching basic literacy and numeracy skills. Additionally, entrepreneurship skills will be developed in small business skill training programs and in programs designed to enhance the management skills of existing entrepreneurs.

All retraining and re-qualification programs will double as advisory services. . The instructors / guides / lecturers will be obliged to provide legal, marketing, financial, sales-related or other consulting. Students who volunteer to teach basic skills will be eligible to receive university credits and scholarships. Entrepreneurship and Small Businesses

Small businesses are the engine of growth and job creation in all modern economies. In the long run, the formation of small businesses is Macedonia's **only hope**.

14. The government will encourage the provision of micro-credits and facilities to set up small and home-based businesses by the banking system and non-banking special purpose financial institutions.

15. The government – through its network of Employment Bureaus and facilities – will provide entrepreneurs with physical facilities and services – such as business incubators.

16. The state will encourage small businesses through the provision of subsidized and state guaranteed micro-credits.

17. The government will give domestic investors and domestic entrepreneurs and intrapreneurs (=investments within big firms) the same treatment accorded to foreign investors: tax credits, tax holidays, deferral of capital gains taxes and so on.

18. Small to medium size businesses will be given preference in government procurement and in public tenders.

19. The government will encourage innovation and the formation of intellectual property by financing the registration of international patents, brand names, copyrights, and trademarks and by organizing innovation fairs and exhibitions in Macedonia or participating in such fairs and exhibitions abroad in an effort to locate investors, venture capitalists and risk capital funds for Macedonian inventors and innovators.

20. The government will encourage home businesses by supporting women entrepreneurs. This will be done by providing them with the conditions to work and exercise their entrepreneurial skills. By establishing day care centres for their children. By providing micro-credits. By giving women special tax credits. By allowing or encouraging flextime or part time work or work from home. By recognizing the home as the domicile of business (especially through appropriate tax deductibles). By equalizing the legal rights and pay of women with men. By protecting them from sexual or gender harassment.

21. The government will identify priority future leading economic sectors and act to support them. The education and higher education systems will be re-directed and encouraged to produce the skills needed by these economic sectors. In Macedonia, these sectors include: designer textiles, off season agricultural products, high value added agricultural products (e.g., greenhouse flowers), organic foods, ethnic foods, remote processing of backroom operation using computers and modems, software authoring and many other sectors where Macedonia has comparative advantages.

22. The government will encourage community-level and municipality-level economic activities and other civic local initiatives. This will be done by opening municipal "one stop shops" and by providing financial assistance and participation of the state, either through the banking system or through independent contractors.

23. The government will implement a "One Stop Shop" approach in all relevant economic legislation and regulation. It will strive to cut bureaucracy by amending all the laws related to business and trade to include a mandatory "one stop shop" provision.

24. The government will encourage big firms to reward entrepreneurial and innovating workers, to spin off small businesses, to create in-house incubators and to protect their intellectual property. This will be done by providing a mixture of tax benefits and direct financial assistance.

25. The government will act to disseminate knowledge and information regarding business, financing, business-related skills and practices,

entrepreneurship, management, and quality control techniques – both through the mass media or directly, through educational schemes and institutions, both public and private.

26. All senior government officials, including ministers, will meet small business owners and entrepreneurs on a regular basis. The government will establish an inter-ministerial “Committee for Small Business and Entrepreneurship”, chaired by the Prime Minister. This will be a steering committee with executive powers.

The Labour Divide

I. Employment and Unemployment

By: [Dr. Sam Vaknin]

Also published by [United Press International (UPI)]

Communism abolished official unemployment. It had no place in the dictatorship of the proletariat, where all means of production were commonly owned. Underemployment was rife, though. Many workers did little else besides punching cards on their way in and out.

For a long time, it seemed as though Japan succeeded where communism failed. Its unemployment rate was eerily low. It has since climbed to exceed the United States' at 5.6%. As was the case in Central and Eastern Europe, the glowing figures hid a disheartening reality of underemployment, inefficiency, and incestuous relationships between manufacturers, suppliers, the government, and financial institutions.

The landscape of labour has rarely undergone more all-pervasive and thorough changes than in the last decade. With the Cold War over, the world is in the throes of an unprecedented economic transition. The confluence of new, disruptive technologies, the collapse of non-capitalistic modes of production, the evaporation of non-market economies, mass migration (between 7.5% - in France - and 15% - in Switzerland - of European populations), and a debilitating brain drain - altered the patterns of employment and unemployment irreversibly and globally.

In this series of articles, I study this tectonic shift: employment and unemployment, brain drain and migration, entrepreneurship and workaholism, the role of trade unions, and the future of work and retirement.

I. The True Picture

According to the ILO ("World Employment Report - 2001"), more than 1 billion people - one third of the global workforce - are either unemployed or underemployed. Even hitherto "stable" countries have seen their situation worsen as they failed to fully adjust to a world of labour mobility, competitiveness, and globalization.

Unemployment in Poland may well be over 18% - in Argentina, perhaps 25%. In many countries, unemployment is so entrenched that no amount of aid and development seem to affect it. This is the case in countries as diverse as Macedonia (35% unemployment) and Zimbabwe (a whopping 60%). The much heralded improvements in the OECD countries were both marginal (long term unemployment declined from 35% of the total to 31%) and reversible (unemployment is vigorously regaining lost ground in Germany and France, for instance).

Official global unemployment increased by 20 million people (to 160 million) between the nadir of the Asian crisis in 1997 and 2001. The situation has much deteriorated since. The ILO estimates that the world economy has to run (i.e., continue to expand as it has done in the roaring 1990's) - in order to stay put (i.e., absorb 500 million workers likely to be added to the global labour force until 2010). How can this be achieved with China unwinding its state sector (which employs 13% of its workforce) - is not clear. Add to this stubbornly high birth rates (esp. in Africa) and a steady decline in government hiring al over the world - and the picture may be grimmer than advertised.

But the rate of unemployment is not a direct and exclusive result of growth or the lack thereof. It is influenced by government policies, market forces (including external shocks), the business cycle, discrimination, and investment - including by the private sector - in human capital.

The problem with devising effective ways of coping with unemployment is that no one knows the true picture. Taking into account internal, rural-to-urban, migration patterns and the growth of the private sector (it now employs 5% of the labour force) - China may have a real unemployment rate of 9.5% (compared to the official figure of 3.1%). Egypt's official rate is 8% -but it masks vast over-employment in the public sector. Lebanon's is 9% - due to a one-time reconstruction bonanza, financed by the billionaire-turned-politician, Hariri. Algeria's unemployed easily amount to half the work force - yet, the published rate is 29%. In numerous countries - from Brazil to Sri Lanka - many people are mainly employed in casual work.

The average unemployment rate in Central and Eastern Europe is 14% - but it is double that (more than 30%) among the young (compared to 15% for West European youths). The average is misleading, though. In Georgia the rate is 70% - in the Czech Republic 16%.

Even in the OECD, the tidal wave of part-time workers, short term contracts, outsourcing, sub-contracting, and self-employment - renders most figures rough approximations. Part time work is now 20% of the OECD workforce (German attempts to reverse the trend notwithstanding). Temporary work and self-employment constitute another 12% each. No one knows for sure how many illegal economic migrants are there - but there are tens of millions of legal ones.

II. The Facts

IIa. Labour Mobility

"Mobility", "globalization", "flextime" - media imagery leads us to believe that we move around more often, and change (less secure) jobs more frequently. It is not so. By many measures, the world is less globalized today than it was a century ago. Contrary to popular perceptions, job tenure (in the first 8 years of employment) has not declined, nor did labour mobility increase (according to findings published by the NBER and CEPR). Firms' hiring and firing practices are more flexible but this is because "sarariman" jobs are out of fashion and many workers (80% of them, according to the Employment Policy Foundation) prefer casual work with temporary contracts.

Workers keep moving, as they always have, among firms and between sectors. But they are still reluctant to relocate, let alone emigrate. The subjective perception of job insecurity is high, even after the most prosperous decade in recent history. Witness the sparse movement of labour among members of the EU, despite the existence, on paper, of a single labour market. Still, rising systemic unemployment everywhere serves to increase both the efficiency and productivity of workers and to moderate their wage claims.

IIb. Collective Bargaining

Studies linked collective bargaining to an increased wage level, decreased hiring and more rigid labour markets. But unionized labour has greatly contracted in almost all OECD countries. Why has unemployment remained so persistently high?

In France and the Netherlands collective agreements were applied to non-unionized labour (close to four fifth of the actually employed in the latter). Employment increases only where both union membership and coverage by collective agreements are down (USA, UK, New Zealand, Australia).

There are different models of wage bargaining. In the USA and Canada agreements are sometimes signed at the firm or even individual plant level. Throughout Scandinavia (though this may be changing in Norway and Denmark now that centre-right parties have won the elections), a single national agreement prevails. There is no clear trend, though. Britain, New

Zealand and Sweden decentralized their collective bargaining processes while Norway and Portugal are still centralized.

Both types of bargaining - centralized and decentralized - tend to moderate wage demands. Centralized bargaining forces union leaders to consider the welfare of the entire workforce. Either of the pure models seems preferable to a hybrid system. The worst results are obtained with national bargaining for specific industries. Hybrid-bargaining Europe saw its unemployment soar from 3 to 11% in the last 25 years. Pure-bargaining USA maintained a low unemployment rate of 5-6% during the same quarter century.

IIc. Unemployment Benefits

Blanchard and Wolfers studied 8 market rigidities in 20 countries (including the EU, USA, Canada, and Japan) between the years 1960-96. The unemployment rate in an imaginary composite of all the studied countries should have risen by 7.2% in this period. But unemployment increased by twice as much in countries with strict employment protection laws compared to countries with laxer labour legislation.

Unemployment in the country with the most generous unemployment benefits grew five times more than in the most parsimonious one. It grew our times faster in countries with centralized wage bargaining than in countries with utterly decentralized bargaining. Labour market rigidities all amplify the effects of asymmetrical shocks - which bodes ill for the eurozone.

Other studies (e.g., the 1994 OECD one year study, the more substantial DiTella-MacCullouch study) seem to support these findings. The transition from a rigid to a flexible labour market does not yield immediate results because it increases labour force participation. But the unemployment rate is favorably affected later.

IId. Minimum Wages

In the USA, the minimum wage is 35% of the median wage (in France it is 60%, in Britain - 45%, and in the Netherlands it is declining). When wages are downward-flexible – more lowly skilled jobs are created. A 1% rise in the minimum wage reduces the probability of finding such a job by 2-2.5% in both America and France, according to the NBER (Lemieux and Margolis).

The proponents of minimum wages say they reduce poverty and increase the equality of wealth distribution. Their opponents (such as Peter Tulip of the Federal Reserve) blame them for job destruction, mainly by raising the NAIRU. The OECD's position is that wage regulation cannot remedy poverty.

As "The Economist" succinctly puts it, "few low paid workers live in low-income households and few low-income households include low paid workers. (Thus), the benefits of the minimum wage, such as they are, largely bypass the poor."

Again, it is important to realize that unemployment is not universal - it is concentrated among the young, the old, the under-educated, the unskilled, and the geographically disadvantaged. One in eight of all workers under the age of 25 in the USA are unemployed, more than twice the national average (the figure in France is one in four). A 10% rise in the minimum wage - regardless of its level - reduces teenage employment by 2-4%, calculates the OECD.

Many countries (USA, UK, France) introduced "training wages" – actually, minimum wage exemptions for the young. But even this sub-minimum wages still represent a high percentage of mean youth earnings (53% in the USA and 72% in France) and thus have an inhibiting effect on youth employment.

Minimum wages do reduce inequality by altering the income distribution and by equalizing wages across ages and genders - but they have no effect on inequality and poverty reduction, insists the OECD. "The Economist" quotes these figures (in 1998):

"In American households with less than half the median household income, only 33% of adults have a low-paid job. (compared to 13% in the Netherlands and 5% in the UK). In most poor households no one is employed in a regular job. Many low earners, on the other hand, have well-paid partners, or affluent parents ... Only 33% of those Americans who earn less than two-thirds of the median wage live in families whose income is less than half the national median. (In the UK the figure is 10% and in Ireland – 3%). Over a 5-year period, only 25% of low paid Americans are in a poor family at some point; in Britain 10% are."

Thus, minimum wages seem to hurt poor families with teenagers (by making teenage employment unattractive) while benefiting mainly the middle class.

Still, the absolute level of the minimum wage seems to be far more important that its level relative to the average or median wage. Hungary's unemployment went down, from 9% to 6%, while its minimum wage went up (in real terms) by 72% in 1998-2001. During the same four year period, its economy grew by an enviable 5% a year, real wages skyrocketed (by 17%), and its inflation dropped to 7% (from 16%).

IIe. Structural Unemployment

Most unemployment in Europe is structural (as high as 8.9% in Germany, according to a 1999 IMF study). It is the ossified result of decades of centralized wage bargaining, strict job protection laws, and over-generous employment benefits. The IMF puts structural unemployment in Europe at 9%. This is compared to the USA's 5% and the UK's 6% (down from 9%). The remedies, though well known, are politically unpalatable: flexible wages, mobile labour, the right fiscal policy, labour market deregulation, and limiting jobless benefits.

Some hesitant steps have been taken by the governments of Germany and France (cut jobless benefits and turned a blind eye to temporary and part-time work), by Italy (decoupled benefits from inflation), and by Belgium, Spain and France (reduced the minimum wage payable to young people).

But piecemeal reform is worse than no reform at all. In an IMF Staff Paper, Coe and Snower describe the Spanish attempt to introduce fixed term labour contracts. It established two de facto classes of workers - the temporary vs. the permanently employed - and, thus, reduced labour market flexibility by granting increased bargaining power to the latter. France introduced a truncated, 35-hours, working week. Other countries imposed a freeze on hiring with the aim of workforce attrition through retirement. Yet, these "remedies" also led to an increase in the bargaining power of the remaining workers and to commensurate increases in real wages.

IIf. Unemployment and Inflation

Another common misperception is that there is some trade off between unemployment and inflation. Both Friedman and Phelps attacked this simplistic notion. Unemployment seems to have a "natural" (equilibrium) rate, which is determined by the structure and operation of the labour market and is consistent with stable inflation (NAIRU – Non Accelerating Inflation Rate of Unemployment).

NAIRU is not cast in stone. Employment subsidies, for instance, make low skilled workers employable and lower NAIRU. So do unilateral transfers which raise incomes. According to Phelps, big drops in unemployment need not greatly increase permanent inflation. Stiglitz calculated that America's NAIRU may have dropped by 1.5% due to increased competition in the markets for jobs and goods. These findings are supported by other prominent economists. Stiglitz concluded that NAIRU, in itself, is meaningless. It is the gap between the estimated NAIRU and the actual rate of unemployment that is a good predictor of inflation.

IIg. The Rhineland Model, the Poldermodel, and Other European Ideas

The Anglo-Saxon variant of capitalism is intended to maximize value for shareholders (often at the expense of all other stakeholders).

The Rhineland model likes to think of itself as "capitalism with a human face". It calls for an economy of consensus among stakeholders (shareholders, management, workers, government, banks, other creditors, suppliers, etc.)

Netherlands, too, has an advisory Social and Economic Council. Another institution, the Labour Foundation is a social partnership between employees and employers. Both are relics of a corporatist past.

But the Netherlands saw its unemployment rate decline from 17% to less than 2% while ignoring both models and inventing the "Poldermodel", a Third Way. Wim Duisenberg, the Dutch Banker (currently Governor of the European Central Bank), quoted in an extensive analysis of the Poldermodel prepared for "The Economist" by Frits Bolkstein (a former Dutch minister for foreign trade), attributed this success to four elements:

1. Improving state finances
2. Pruning social security and other benefits and transfers
3. Flexible labour markets
4. A Stable exchange rate

According to Thomas Mayer and Laurent Grillet-Aubert ("The New Dutch Model"), the "Dutch Miracle" traces its beginnings to 1982 and the Wassenaar Agreement in which employers' organizations and trade unions settled on wage moderation and job creation, mainly through decentralization of wage bargaining. The government contributed tax cuts to the deal (these served to compensate for forgone wage increases). These cuts generated a fiscal stimulus and prevented a contraction in demand as a result of wage moderation. Additionally, both social security payments and the minimum wage were restricted. Wage increases were no longer matched by corresponding increases in minimum social benefits. Working hours, hiring, firing and collective bargaining were all incorporated in a deregulated labour market.

Small and medium size businesses costly regulation was relaxed. Generous social security and unemployment benefits (a disincentive to find work) were scaled back. Sickness benefits, vacation periods, maternal leave and unemployment benefits were substantially adjusted.

The Netherlands did not shy from initiating public works projects, though on a much smaller scale than France, for instance. The latter financed these projects by raising taxes and by increasing its budget deficit. The Dutch preferred to rely on the free market.

Long term (more than 12 months) unemployment in Europe constitutes 30% of the total. About half the entire workforce under the age of 24 is unemployed in Spain - and about one quarter in France and in Italy. Germany, Austria and Denmark escaped this fate only by instituting compulsory apprenticeship. But the young unemployed form the tough and immutable kernel of long-term unemployment. This is because a tug of war, a basic conflict of interest, exists between the "haves" and "have-nots". The employed wish to defend their monopoly and form "labour cartels". This is especially true in dirigiste Europe.

While, in the USA, according to McKinsey, 85% of all service jobs created between 1990-5 paid more than the average salary – this was not the case in Europe. Add to this European labour immobility - and a stable geographical distribution of unemployment emerges.

The Dutch model sought to counter all these rigidities. In a report about "The Politics of Unemployment" dated April 1997, "The Economist" admiringly enumerated these steps:

- The Dutch reduced social security contributions from 20% (1989) to 7.9% and they halved the income tax rate to 7% (1994).
- They allowed part time workers to be paid less than full timers, doing the same job.
- They abandoned sectoral central bargaining in favor of decentralized national bargaining.
- They cut sickness benefits, unemployment insurance (benefits) and disability insurance payments (by 10% in 1991 alone – from 80% to 70%).
- They made it harder to qualify for unemployment (from 1995 no benefits were paid to those who chose to remain unemployed).
- The burden of supporting the sick was shifted to the employer / firm. In 1996, the employer was responsible to pay for the first year of sickness benefits.

Even the Dutch model is not an unmitigated success, though. More than 13% of the population are on disability benefits. Only 74% of the economically active population is in the workforce - one third of them in part time jobs.

But compare the Dutch experience to France's, for instance.

The Loi Robien exempted companies from some social security contributions for 7 years, if they agree to put workers on part time work instead of laying them off. Firms promptly abused the law and restructured themselves at the government's expense.

The next initiative was to reduce the working week to 35 hours. This was based on the "Lump of Labour Fallacy" – the idea that there is a fixed quantity of work and that reducing the working week from 39 to 35 hours will create more jobs.

In Spain, hiring workers is unattractive because firing them is cost-prohibitive. The government – faced with more than 22% unemployment in the mid-90's – let more than 25% of all workers go on part time contracts with less job protection, by 2001.

Still, no one knows to authoritatively answer the following substantial questions, despite the emergence of almost universally applied UN-sponsored Standard National Job Classifications:

How many are employed and not reported or registered? How many are registered as unemployed but really have a job or are self-employed? How many are part time workers – as opposed to full time workers? How many are officially employed – but de facto unemployed or underemployed? How many are on "indefinite" vacations, on leave without pay, on reduced pay, etc.?

Many countries have a vested interest to obscure the real landscape of their destitution - either in order to prevent social unrest, or in order to extract disproportionate international aid. In a few countries, limited amnesties were offered by the state for employers' violations of worker registration. Firms were given a few, penalty-free, weeks to register all their workers. Afterwards, labour inspectors were supposed to embark on sampling raids and penalize the non-compliers, if need be by closing down the offending business. The results were dismal.

In most countries, the unemployed must register with the Employment Bureau once a month, whether they receive their benefits, or not. Non-compliance automatically triggers the loss of benefits. In other countries, household surveys were carried out - in addition to claimant counts and labour force surveys, which deal with the structure of the workforce, its geographical distribution, the pay structure, and employment time probabilities.

Yet, none of these measures proved successful as long as government policies - the core problem - remained the same. Faced with this trenchant and socially corroding scourge - governments have lately been experimenting with a variety of options.

III. The Solutions

IIIa. Tweaking Unemployment Benefits

Unemployment benefits provide a strong disincentive to work and, if too generous, may become self-perpetuating. Ideally, unemployment benefits should be means tested and limited in time, should decrease gradually and should be withheld from school dropouts, those who never held a job, and, arguably, as is the case in some countries, women after childbearing. In the USA, unemployment benefits are not available to farm workers, domestic servants, the briefly employed, government workers and the self- employed.

Copious research demonstrates that, to be effective, unemployment benefits should not exceed short-term sickness benefits (as they do in Canada, Denmark, and the Netherlands). Optimally, they should be lower (as they are in Greece, Germany and Hungary). Where sickness benefits are earnings-related, unemployment benefits should be flat (as is the case in Bulgaria and Italy). In Australia and New Zealand, both sickness benefits and unemployment benefits are means tested. Unemployment benefits should not be higher than 40% of one's net average monthly wage (the "replacement rate").

Most unemployment benefits are limited in time. In Bulgaria, to 13 weeks, in Israel, Hungary, Italy and the Netherlands to 6 months and in France, Germany, Luxemburg and the United Kingdom – to 12 months. Only Belgium offered time-unlimited unemployment benefits. In most countries, once unemployment benefits end - social welfare payments commence, though they are much lower (to encourage people to find work).

In many countries in transition (e.g., in Macedonia), the unemployed are eligible to receive health and pension benefits upon registration. This - besides being an enormous drain of state finances - encourages people to register as unemployed even if they are not and distorts the true picture.

Some countries, mainly in Central Europe, attempt to provide lump sum block grants to municipalities and to allow them to determine eligibility, to run their own employment-enhancement programs, and to establish job training and child care centers. Workers made redundant can choose to either receive a lump sum or be eligible for unemployment benefits.

A third approach involves the formation of private unemployment, disability, and life, or health insurance and savings plans to supplement or even replace the benefits offered by the relevant state agencies.

An intriguing solution is the municipal "voucher communities" of unemployed workers, who trade goods and services among themselves (in the UK, in Australia, and in Canada). They use a form of "internal money" – a voucher. Thus, an unemployed electrician exchanges his services with an unemployed teacher who, in return tutors the electrician's off-spring. The unemployed are allowed to use voucher money to pay for certain public goods and services (such as health and education). Voucher money cannot be redeemed or converted to real money – so it has no inflationary or fiscal effects, though it does increase the purchasing power of the unemployed.

IIIb. Enhancing Employability

In most such schemes, the state participates in the wage costs of newly hired formerly unemployed workers – more with every year the person remains employed. Employers usually undertake to continue to employ the worker after the state subsidy is over. Another ploy is linking the size of investment incentives (including tax holidays) to the potential increase in employment deriving from an investment project. Using these methods, Israel succeeded to absorb more than 400,000 working age immigrants from Russia in the space of 5 years (1989-1994) - while reducing its unemployment rate.

IIIc. Encouraging Labour Mobility

Workers are encouraged to respond promptly and positively to employment signals, even if it means relocating. In many countries, a worker is obliged to accept any job on offer in a radius of 100 km from the worker's place of residence on pain of losing his or her unemployment benefits. Many governments (e.g., Israel, Yugoslavia, Russia, Canada, Australia) offer the relocating worker financial and logistical assistance as well as monetary and non-monetary incentives.

The EU is considering to introduce standard fixed term labour contracts. They would reduce the insupportable costs and simplify the red tape now involved in hiring and firing. The only country to buck the trend is Germany. It is looking to equate the rights of part time workers and full time ones. Similar ideas are debated in Britain. In France and most countries in Central and Eastern Europe, to dismiss a worker, the employer has to show that it has restricted hiring, applied workforce attrition, and reduced overall overtime. The EU's "social chapters" - now on of every member's law books - provides sacked employees with recourse to domestic and European courts against their employers. In other parts of the world, the two parties are subject to conciliation, mediation, or arbitration.

IIId. Reforming the Minimum Wage

Minimum wage hinders the formation of new workplaces - and yet almost all countries have it. Both the USA and the UK have just increased it. Many are considering a scaled minimum wage, age-related, means tested, and skills-dependent.

IIIe. Administrative Measures: Early Retirement

A favorite of post-communist countries in transition, early retirement was liberally applied in order to get rid of "technologically-redundant" workers and thus trim under-employment.

Romania, for instance, offered its workers a handsome up-front payment combined with unemployment benefits. A special Early Retirement Fund was created by setting aside receipts from the privatization of state assets and from dividends received by the state from its various shareholdings.

IIIf. Administrative Measures: Reduction of Working Hours

France has recently implemented the second phase of its transition to a 35 hours working week, making it obligatory for medium and small businesses. It is considered by many economist to be a wasteful measure, based on the "lump of labour" fallacy.

IIIg. Administrative Measures: Public Works

The Civilian Conservation Corps (CCC) was established in the USA in 1932. It offered work for young and unmarried men. They planted trees, erected flood barriers, put out forest fires, and constructed forest roads and trails. They lived in semi-military work camps, were provided with food rations and a modest monthly cash allowance, medical care, and other necessities.

At its apex, the CCC employed 500,000 people – and 3 million people throughout its existence. It was part of a major "public works" drive known as "The New Deal". This Keynesian tradition continues in many countries - from deflationary Japan to racially imbalanced South Africa - to this very day. Such workers are usually paid a salary equal to their unemployment benefits (Workfare).

The Encyclopedia Britannica has this to say about public works:

"The weakness in the proposal to use disguised unemployment for the construction of social overhead capital projects arises from inadequate consideration of the problem of providing necessary subsistence funds to maintain the workers during the long waiting period before the projects yield consumable output. This can be managed somehow for small-scale local community projects when workers are maintained in situ by their relatives – but not when workers move away. The only way to raise subsistence funds is to encourage voluntary savings and expansion of marketable surplus of food purchased with these savings."

Public works financed by grants or soft loans do serve as an interim "unemployment sink" – a countercyclical buffer against wild upswings in unemployment - but, for all we know, they may simply be displacing existing employment at great cost to the public purse.

IIIh. Administrative Measures: Public Education and Dissemination of Information

Employment Bureaus throughout the world - spurred on by stiff competition from the private sector - have transformed themselves from mere registries to active (and computerized) labour exchanges. Many also strive to educate workers, retrain them, and enhance their employability through the acquisition of new skills. The unemployed are taught how to prepare a professional bio, a business plan, a marketing plan, feasibility studies, credit applications and interview skills.

Employment Bureaus now organize job clubs, labour exchanges and employment fairs.

IIIi. National Employment Contract

Many countries - especially in Latin America and in Central and Eastern Europe - have signed "National Employment Contracts" between government, trade unions, employers (represented by the Chamber of Commerce), and Central Bank.

In this neo-corporatist approach, employers usually guarantee the formation of new work places against a freeze on employee compensation, the exclusion of part time labour from collective bargaining, and added flexibility on minimum wages, job security, hiring and firing procedures, social and unemployment benefits, indexation of wages and benefits, the right to strike, and wage increases (increasingly linked to productivity gains).

Trade unions, in return, are granted effective control of the shop floor - issues like unemployment insurance, employment protection, early retirement, working hours, old age pensions, health insurance, housing, taxation, public sector employment, vocational training, and regional aid and subsidies to declining and infant industries.

In Sweden and Germany there is co-determination. Workers are represented even in non-wage related matters (such as the work organization).

Wages and unemployment benefits are perceived as complementary economic stabilizers. Many countries instituted an "Incomes Policy" intended to ensure that employers, pressurized by unions, do not raise wages and prices. In Sweden, for instance, both labour and management organizations are responsible to maintain price stability. The government can intervene in the negotiations and even threaten a wage freeze, or wage AND price controls. In Holland the courts can set wages.

Another possibility is a Guaranteed Wage Plan – Employers assure minimum annual employment or minimum annual wages or both to tenured employees. In return, firms and trade unions forego seniority (LIFO, last in first out, firing the newly hired first) and the employer is given a free hand in hiring and firing employees, regardless of tenure.

IIIj. Labour Disputes Settlement

Most modern collective agreements require compulsory dispute settlement through mediation and arbitration with clear grievance procedures. Possibilities include conciliation (a third party brings management and labour together to try and solve the problems by themselves), mediation (a third party makes nonbinding suggestions to the parties), arbitration (a third party makes final, binding decisions), or Peer Review Panels – where management and labour rule together on grievances.

IIIk. Non-conventional Modes of Work

Work is no longer the straightforward affair it used to be.

In Denmark, a worker can take a special leave. He receives 80% of the maximum unemployment benefits as well as uninterrupted continuity in his social security rights. But he has to use the time for job training, a sabbatical, further education, a parental leave, to take old people (old parents or other relatives), or the terminally ill. This is also the case in Belgium (though only for up to 2 months). These activities are thought of as substitutes for social outlays.

In Britain, part time and full time workers are entitled to the same benefits if wrongfully dismissed and in Holland, the pension funds grant pensions to part time workers. In many countries, night, shift and weekend workers are granted special treatment by law and by collective contract (for instance, exemption from social benefits contributions).

Most OECD countries now encourage (or tolerate) part-time, flextime, from home, seasonal, casual, and job sharing work. Two people sharing the same job as well as shift workers are allowed to choose to be treated, for tax purposes and for the purposes of unemployment benefits, either as one person or as two persons. In Bulgaria, Macedonia, and a host of other post-communist countries, a national part time employment program (called in Macedonia the "Mladinska Zadruga") encourages employers to hire the unemployed on a short term, part time basis

IIIl. Full Employment Budgets

The national accounts of many countries now produce a full employment budget. It adjusts the budget deficit or surplus in relation to effects of deviations from full or normal unemployment. Thus, a simple balanced budget could be actually contractionary. A simple deficit may, actually, be a surplus on a full employment basis and government policies can be contractionary despite positive borrowing.

IIIm. Apprenticeship, Training, Retraining and Re-Qualification

In France, Germany, the UK, the USA, and many other countries, sub-minimum wages are paid to participants in apprenticeship and training programs. Most of the unemployed can be retrained, regardless of age and level of education. This surprising result has emerged from many studies.

The massive retraining and re-qualification programs required by the technological upheavals of the last few decades are often undertaken in collaboration with the private sector. The government trains, re-trains, or re-qualifies the unemployed – and firms in the private sector undertake to employ them for a minimal period of time afterwards. It is a partnership, with the government acting as educational sub-contractor for the business sector (with emphasis on the needs of small to medium enterprises) and a catalyst of skill acquisition. Such programs include vocational training, entrepreneurship skills, management skills, and even basic literacy and numeracy. Students are often employed as instructors in return for college credits and scholarships.

IIIn. Entrepreneurship and Small Businesses

Small businesses are the engine of growth and job creation in all modern economies. Even the governments of rich countries encourage innovative credit schemes (such as micro-credits) and facilities (such as business incubators), tax credits, and preference to small businesses in government procurement.

The Labour Divide

II. Migration and Brain Drain

By: Dr. Sam Vaknin

Also published by United Press International (UPI)

Human trafficking and people smuggling are multi-billion dollar industries. At least 50% of the 150 million immigrants the world over are illegal aliens. There are 80 million migrant workers found in virtually every country. They flee war, urban terrorism, crippling poverty, corruption, authoritarianism, nepotism, cronyism, and unemployment. Their main destinations are the EU and the USA - but many end up in lesser countries in Asia or Africa.

The International Labour Organization (ILO) published the following figures in 1997:

Africa had 20 Million migrant workers, North America - 17 million, Central and South America - 12 million, Asia - 7 million, the Middle East - 9 million, and Europe - 30 million.

Immigrants make up 15% of staid Switzerland's population, 9% of Germany's and Austria's, 7.5% of France's (though less than 4% of multi-cultural Blairite Britain). There are more than 15 million people born in Latin America living in the States. According to the American Census Bureau, foreign workers comprise 13% of the workforce (up from 9% in 1990). A million have left Russia for Israel. In this past century, the world has experienced its most sweeping wave of both voluntary and forced immigration - and it does not seem to have abated.

According to the United Nations Population Division, the EU would need to import 1.6 million migrant workers annually to maintain its current level of working age population. But it would need almost 9 times as many to preserve a stable workers to pensioners ratio.

The EU may cope with this shortage by simply increasing labour force participation (74% in labour-short Netherlands, for instance). Or it may coerce its unemployed (and women) into low-paid and 3-d (dirty, dangerous, and difficult) jobs. Or it may prolong working life by postponing retirement.

These are not politically palatable decisions. Yet, a wave of xenophobia that hurtled lately across a startled Europe - from Austria to Denmark - won't allow the EU to adopt the only other solution: mass (though controlled and skill-selective) migration.

As a result, Europe has recently tightened its admission (and asylum) policies even more than it has in the 1970's. It bolted and shut its gates to primary (economic) migration. Only family reunifications are permitted. Well over 80% of all immigrants to Britain are women joining their husbands, or children joining their father. Migrant workers are often discriminated against and abused and many are expelled intermittently.

Still, economic migrants - lured by European riches - keep pouring in illegally (about half a million every year -to believe The Centre for Migration Policy Development in Vienna). Europe is the target of twice as many illegal migrants as the USA. Many of them (known as "labour tourists") shuttle across borders seasonally, or commute between home and work - sometimes daily. Hence the EU's apprehension at allowing free movement of labour from the candidate countries and the "transition periods" (really moratoria) it wishes to impose on them following their long postponed accession.

According to the American Census Bureau's March 2002 "Current Population Survey", 20% of all US residents are of "foreign stock" (one quarter of them Mexican). They earn less than native-born Americans and are less likely to have health insurance. They are (on average) less educated (only 67% of immigrants age 25 and older completed high school compared to 87% of native-born Americans). Their median income, at $36,000 is 10% lower and only 49% of them own a home (compared to 67% of households headed by native-born Americans). The averages mask huge disparities between Asians and Hispanics, though. Still, these ostensibly dismal figures constitute a vast improvement over comparable data in the country of origin.

But these are the distant echoes of past patterns of migration. Traditional immigration is becoming gradually less attractive. Immigrants who came to Canada between 1985-1998 earn only 66% of the wages of their predecessors. Labour force participation of immigrants fell to 68% (1996) from 86% (1981).

While most immigrants until the 1980's were poor, uneducated, and unskilled - the current lot is middle-class, reasonably affluent, well educated, and highly skilled. This phenomenon - the exodus of elites from all the developing and less developed countries - is called "brain drain", or "brain hemorrhage" by its detractors (and "brain exchange" or "brain mobility" by its proponents). These metaphors conjure up images of the inevitable outcomes of some mysterious processes, the market's invisible hand plucking the choicest and teleporting them to more abundant grounds.

Yet, this is far from being true. The developed countries, once a source of such emigration themselves (more than 100,000 European scientists left for the USA in the wake of the Second World War) - actively seek to become its destination by selectively attracting only the skilled and educated citizens of developing countries. They offer them higher salaries, a legal status (however contingent), and tempting attendant perks. The countries of origin cannot compete, able to offer only $50 a month salaries, crumbling universities, shortages of books and lab equipment, and an intellectual wasteland.

The European Commission had this to say last month:

"The Commission proposes, therefore, that the Union recognize the realities of the situation of today: that on the one hand migratory pressures will continue and that on the other hand in a context of economic growth and a declining and aging population, Europe needs immigrants. In this context our objective is not the quantitative increase in migratory flows but better management in qualitative terms so as to realize more fully the potential of immigrants' admitted."

And the EU's Social and Employment Commission added, as it forecast a deficit of 1.7 million workers in Information and Communications Technologies throughout the Union:

"A declining EU workforce due to demographic changes suggests that immigration of third country nationals would also help satisfy some of the skill needs [in the EU]. Reforms of tax benefit systems may be necessary to help people make up their minds to move to a location where they can get a job...while ensuring that the social objectives of welfare systems are not undermined."

In Hong Kong, the "Admission of Talents Scheme" (1999) and "The Admission of Mainland Professionals Scheme" (May 2001) allow mainlanders to enter it for 12 month periods, if they:

"Possess outstanding qualifications, expertise or skills which are needed but not readily available in Hong Kong. They must have good academic qualifications, normally a doctorate degree in the relevant field."

According the January 2002 issue of "Migration News", even now, with unemployment running at almost 6%, the US H1-B visa program allows

195,000 foreigners with academic degrees to enter the US for up to 6 years and "upgrade" to immigrant status while in residence. Many H1-B visas were cancelled due to the latest economic slowdown - but the US provides other kinds of visas (E type) to people who invest in its territory by, for instance, opening a consultancy.

The UK has just implemented the Highly Skilled Migrant Programme which allows "highly mobile people with the special talents that are required in a modern economy" to enter the UK for a period of one year (with indefinite renewal). Even xenophobic Japan allowed in 222,000 qualified foreigners last year (double the figure in 1994).

Germany has absorbed 10,000 computer programmers (mainly from India and Eastern Europe) since July 2000. Ireland was planning to import twenty times as many over 7 years - before the dotcoms bombed. According to "The Economist", more than 10,000 teachers have left Ecuador since 1998. More than half of all Ghanaian medical doctors have emigrated (120 in 1998 alone). More than 60% of all Ethiopian students abroad never return. There are 64,000 university educated Nigerians in the USA alone. More than 43% of all Africans living in North America have acquired at least a bachelor's degree.

Barry Chiswick and Timothy Hatton demonstrated ("International Migration and the Integration of Labour Markets", published by the NBER in its "Globalisation in Historical Perspective") that, as the economies of poor countries improve, emigration increases because people become sufficiently wealthy to finance the trip.

Poorer countries invest an average of $50,000 of their painfully scarce resources in every university graduate - only to witness most of them emigrate to richer places. The haves-not thus end up subsidizing the haves by exporting their human capital, the prospective members of their dwindling elites, and the taxes they would have paid had they stayed put. The formation of a middle class is often irreversibly hindered by an all-pervasive brain drain.

Politicians in some countries decry this trend and deride those emigrating. In a famous interview on state TV, the late prime minister of Israel, Yitzhak Rabin, described them as "a fallout of the jaded". But in many impoverished countries, local kleptocracies welcome the brain drain as it also drains the country of potential political adversaries.

Emigration also tends to decrease competitiveness. It increase salaries at home by reducing supply in the labour market (and reduces salaries at the receiving end, especially for unskilled workers). Illegal migration has an even stronger downward effect on wages in the recipient country - illegal aliens tend to earn less than their legal compatriots. The countries of origin, whose intellectual elites are depleted by the brain drain, are often forced to resort to hiring (expensive) foreigners. African countries spend more than $4 billion annually on foreign experts, managers, scientists, programmers, and teachers.

Still, remittances by immigrants to their relatives back home constitute up to 10% of the GDP of certain countries - and up to 40% of national foreign exchange revenues. The World Bank estimates that Latin American and Caribbean nationals received $15 billion in remittances in 2000 - ten times the 1980 figure. This may well be a gross underestimate. Mexicans alone remitted $6.7 billion in the first 9 months of 2001 (though job losses and reduced hours may have since adversely affected remittances). The IADB thinks that remittances will total $300 billion in the next decade (Latin American immigrants send home c. 15% of their wages).

Official remittances (many go through unmonitored money transfer channels, such as the Asian Hawala network) are larger than all foreign aid combined. "The Economist" calculates that workers' remittances in Latin America and the Caribbean are three times as large as aggregate foreign aid and larger than export proceeds. Yet, this pecuniary flood is mostly used to finance the consumption of basics: staple foods, shelter, maintenance, clothing. It is non-productive capital.

Only a tiny part of the money ends up as investment. Countries - from Mexico to Israel, and from Macedonia to Guatemala - are trying to tap into the considerable wealth of their diasporas by issuing remittance-bonds, by offering tax holidays, one-stop-shop facilities, business incubators, and direct access to decision makers - as well as matching investment funds.

Migrant associations are sprouting all over the Western world, often at the behest of municipal authorities back home. The UNDP, the International Organization of Migration (IOM), as well as many governments (e.g., Israel, China, Venezuela, Uruguay, Ethiopia), encourage expatriates to share their skills with their counterparts in their country of origin. The thriving hi-tech industries in Israel, India, Ireland, Taiwan, and South Korea were founded by returning migrants who brought with them not only capital to invest and contacts - but also entrepreneurial skills and cutting edge technologies.

Thailand established in 1997, within the National Science and Technology Development Agency, a 2.2 billion baht project called "Reverse the Brain Drain". Its aim is to "use the 'brain' and 'connections' of Thai professionals living overseas to help in the Development of Thailand, particularly in science and technology."

The OECD ("International Mobility of the Highly Skilled") believes that:

"More and more highly skilled workers are moving abroad for jobs, encouraging innovation to circulate and helping to boost economic growth around the globe."

But it admits that a "greater co-operation between sending and receiving countries is needed to ensure a fair distribution of benefits".

The OECD noted, in its "Annual Trends in International Migration, 2001" that (to quote its press release):

"Migration involving qualified and highly qualified workers rose sharply between 1999 and 2000, helped by better employment prospects and the easing of entry conditions. Instead of granting initial temporary work permits only for one year, as in the past, some OECD countries, particularly in Europe, have been issuing them for up to five years and generally making them renewable. Countries such as Australia and Canada, where migration policies were mainly aimed at permanent settlers, are also now favoring temporary work permits valid for between three and six years ... In addition to a general increase in economic prosperity, one of the main factors behind the recent increase in worker migration has been the development of information technology, a sector where in 2000 there was a shortage of around 850,000 technicians in the US and nearly 2 million in Europe ..."

But the OECD underplays the importance of brain drain:

"Fears of a "brain drain" from developing to technologically advanced countries may be exaggerated, given that many professionals do eventually return to their country of origin. To avoid the loss of highly qualified workers, however, developing countries need to build their own innovation and research facilities ... China, for example, has recently launched a program aimed at developing 100 selected universities into world-class research centers. Another way to ensure return ... could be to encourage students to study abroad while making study grants conditional on the student's return home."

The key to a pacific and prosperous future lies in a multilateral agreement between brain-exporting, brain-importing, and transit countries. Such an agreement should facilitate the sharing of the benefits accruing from migration and "brain exchange" among host countries, countries of origin, and transit countries. In the absence of such a legal instrument, resentment among poorer nations is likely to grow even as the mushrooming needs of richer nations lead them to snatch more and more brains from their already woefully depleted sources.

The Labour Divide

III. Entrepreneurship and Workaholism

By: Dr. Sam Vaknin

Also published by United Press International (UPI)

The Dutch proudly point to their current rate of unemployment at less than 2%. Labour force participation is at a historically high 74% (although in potential man-hour terms it stands at 62%). France is as hubristic with its labour policies - the 35 hours week and the earlier reduction in employers' participation in social contributions. Employment is sharply up in a host of countries with liberalized labour markets - Britain, Spain, Ireland, Finland. The ECB brags that employment in the euro zone has been rising faster than in the USA since 1997.

This is a bit misleading. Euro zone unemployment is far higher and labour force participation far lower than America's. The young are especially disadvantaged. Only Britain is up to American standards. The European labour market is highly inefficient in matching demand and supply. Labour mobility among regions and countries is glacial and generous unemployment benefits are a disincentive to find a job.

Reforms are creeping into the legislative agendas of countries as diverse as Italy and Germany. Labour laws are re-written to simplify hiring and firing practices and to expand the role of private employment agencies. But militant unions - such as Germany's IG Metal - threaten to undo all the recent gains in productivity and wage restraint.

The European Commission - a bastion of "social Europe" - has just equalized the rights and benefits of temporary workers (with more than 6 weeks of tenure) and full-time ones. Yet another reformist adviser to the Italian Minister of Labour was assassinated. This was followed by a million-workers strong demonstration in Rome's Circo Massimo against minor reforms in firing practices.

But the most successful and efficient labour market in the world, in the States, is associated with a different ethos and an idiosyncratic sociology of work. The frame of mind of the American employee and his employer is fundamentally at odds with European mentality. In Europe, one is entitled to be employed, it is a basic human right and a public good. Employers - firms and businessmen - are parties to a social treaty within a community of stakeholders with equipotent rights. Decisions are reached by consensus and consultation. Peer pressure and social oversight are strong.

Contrast this with the two engines of American economic growth: entrepreneurship and workaholism.

The USA, according to the "Global Entrepreneurship Monitor", is behind South Korea and Brazil in entrepreneurial activity prevalence index. But 7 percent of its population invested an average of $4000 per person in start-ups in 2000.

A 10-country study conducted in 1997-9 by Babson College, the London School of Business, and the Kauffman Center for Entrepreneurial Leadership found gaping disparities between countries. More than 8 percent of all Americans started a new business - compared to less than 1.5 percent in Finland. Entrepreneurship accounted for one third of the difference in economic growth rates among the surveyed countries.

Entrepreneurship is a national state of mind, a vestige of the dominant culture, an ethos. While in Europe bankruptcy is a suicide-inducing disgrace bordering on the criminal - in the USA it is an integral and important part of the learning curve. In the USA, entrepreneurs are social role models, widely admired and imitated. In Europe they are regarded with suspicion as receptacles of avarice and non-conformity. It is common in the States to choose entrepreneurship as a long-term career path. In Europe it is considered professional suicide.

In the USA, entrepreneurs are supported by an evolved network of financial institutions and venues: venture capital (VC), Initial Public Offerings (IPO's) in a multitude of stock exchanges, angel investors, incubators, technological parks, favourable taxation of stock options, and so on. Venture capitalists invested $18 billion in start-ups in 1998, $48 in 1999, almost $100 billion in 2000.

The dot.com crash deflated this tsunami - but only temporarily. US venture capitalists still invest four times the average of their brethren elsewhere - c. 0.5 percent of GDP. This translates to an average investment per start up ten times larger than the average investment outside America.

American investors also power the VC industry in the UK, Israel, and Japan. A Deloitte Touche survey conducted last month (and reported in the Financial Times) shows that a whopping 89 percent of all venture capitalists predict an increase in the value of their investments and in their exit valuations in the next 6 months.

Entrepreneurs in the USA still face many obstacles - from insufficient infrastructure to severe shortages in skilled manpower. The July 2001 report of the National Commission on Entrepreneurship (NCOE) said that less than 5 percent of American firms that existed in 1991 grew their employment by 15 percent annually since, or doubled their employment in the feverish markets of 1992-7. But the report found high growth companies virtually everywhere - and most of them were not "hi-tech" either. Start-ups capitalized on the economic strengths of each of the 394 regions of the USA.

As opposed to the stodgy countries of the EU, many post-communist countries in transition (e.g., Russia, Estonia) have chosen to emulate the American model of job creation and economic growth through the formation of new businesses. International financial institutions - such as the EBRD and the World Bank - provided credit lines dedicated to small and medium enterprises in these countries. As opposed to the USA, entrepreneurship has spread among all segments of the population in Central and Eastern Europe.

In a paper, prepared for USAID by the IRIS Centre in the University of Maryland, the authors note the surprising participation of women - they own more than 40% of all businesses established between 1990-7 in Hungary and 38% of all businesses in Poland.

Virtually all governments, east and west, support their "small business" or "small and medium enterprises" sector.

The USA's Small Business Administration had its loan guarantee authority cut by half - yet to a still enviable $5 billion in FY 2003. But other departments have picked up the slack.

The US Department of Agriculture (USDA) beefed up its Rural Business-Cooperative Service. The Economic Development Administration (EDA) supports "economically-distressed areas, regions, and communities". The International Trade Administration (ITA) helps exporters - as do OPIC (Overseas Private Investment Corporation), the US Commercial Service, the Department of Commerce (mainly through its Technology Administration), the Minority Business Development Agency, the US Department of Treasury, and a myriad other organizations - governmental, non-governmental, and private sector.

Another key player is academe. New proposed bipartisan legislation will earmark $20 million to encourage universities to set up business incubators. Research institutes all over the world - from Israel to the UK - work closely with start-ups and entrepreneurs to develop new products and license them. They often spawn joint ventures with commercial enterprises or spin-off their own firms to exploit technologies developed by their scientists.

MIT's Technology Licensing Office processes two inventions a day and files 3-5 patent applications a week. Since 1988, it started 100 new companies. It works closely with the Cambridge Entrepreneurship Center (UK), the Asian Entrepreneurship Development Center (Taiwan), the Turkish Venture Capital Association, and other institutions in Japan, Israel, Canada, and Latin America.

This is part of a much larger wave of in-house corporate innovation dubbed "intrapreneurship". The most famous example is "Post-It" which was developed, in-house, by a 3M employee and funded by the company. But all major and medium American firms encourage institutionalized intrapreneurship.

Entrepreneurship and intrapreneurship are often associated with another American phenomenon - the workaholic. Bryan Robinson in his 1998 tome, "Chained to the Desk", identifies four types of workaholism (or "work addiction"):

1. The Bulimic Workaholic Style - "Either I do it perfectly or not at all"

2. The Relentless Workaholic Style - "It has to be finished yesterday"

3. Attention-Deficit Workaholic Style - adrenaline junkies who use work as a focusing device

4. Savouring Workaholic Style - slow, methodical, and overly scrupulous workers

Workaholism is confused by most Americans with "hard work", a pillar of the Protestant work ethic, by now an American ethos. Employers demand long work hours from their employees. Dedication to one's work results in higher financial rewards and faster promotion. Technology fosters a "work everywhere, work anytime" environment.

Even before the introduction of the 35 hours week in France, Americans worked 5 weekly hours more than the French, according to a 1998 study by the Families and Work Institute. Americans also out-worked the industrious Germans by 4 hours and the British by 1 hour. The average American work week has increased by 10% (to 44 weekly hours) between 1977-98.

One third of all American bring work home, yet another increase of 10% over the same period. According to the Economic Policy Institute, Germans (and Italians) took 42 days of vacation a year in 1998 - compared to 19 days taken by Americans. This figure may have since deteriorated to 13 annual vacation days. Even the Japanese take 25 days a year.

In a survey conducted by Oxford Health Plans, 34 percent of all respondents described their jobs as "pressing and with no downtime". Thirty two percent never left the building during the working day and had lunch at their desk. Management promotes only people who work late, believed a full one seventh.

Most Europeans - with the notable exception of the British - regard their leisure and vacation times as well as time dedicated to family and friends as important components in a balanced life - no less important than the time they spend at work. They keep these realms strictly demarcated.

Work addiction is gradually encroaching on the European work scene as well. But many Europeans still find American - and, increasingly British - obsession with work to be a distasteful part of the much derided "Anglo-Saxon" model of capitalism. They point at the severe health problems suffered by workaholics - three times as many heart failures as their non-addicted peers.

More than 10,000 workers died in 1997 in Japan from work-stress related problems ("Karoshi") . The Japanese are even more workaholic than the Americans - a relatively new phenomenon there, according to Testsuro Kato, a professor of political science in Hitotsubashi University.

But what is the impact of all this on employment and the shape of labour?

The NCOE identifies five common myths pertaining to entrepreneurial growth companies:

1. The risk taking myth - "Most successful entrepreneurs take wild, uncalculated risks in starting their companies".

2. The hi-tech invention myth - "Most successful entrepreneurs start their companies with a breakthrough invention - usually technological in nature".

3. The expert myth - "Most successful entrepreneurs have strong track records and years of experience in their industries".

4. The strategic vision myth - "Most successful entrepreneurs have a well-considered business plan and have researched and developed their ideas before taking action".

5. The venture capital myth - "Most successful entrepreneurs start their companies with millions in venture capital to develop their idea, buy supplies, and hire employees".

Entrepreneurship overlaps with two other workplace revolutions: self-employment and flexitime. The number of new businesses started each year in the USA tripled from the 1960's to almost 800,000 in the 1990's. Taking into account home-based and part-time ventures - the number soars to an incredible 5 million new businesses a year. Most entrepreneurs are self-employed and work flexible hours from home on ever-changing assignments. This kaleidoscopic pattern has already "infected" Europe and is spreading to Asia.

Small businesses absorbed many of the workers made redundant in the corporate downsizing fad of the 1980's. They are the backbone of the services and knowledge economy. Traditional corporations often outsource many of their hitherto in-house functions to such nascent, mom-and-pop, companies (the "virtual corporation"). Small and medium businesses network extensively, thus reducing their overhead and increasing their flexibility and mobility. The future belongs to these proliferating small businesses and to those ever-fewer giant multinationals which will master the art of harnessing them.

The Labour Divide

IV. The Unions after Communism

By: Dr. Sam Vaknin

Also published by United Press International (UPI)

Self Defense started as a Polish farmers' trade union a decade ago. It leveraged its populist and activist message to capture 20 percent of the electorate, at least in recent opinion polls. Last week it failed to bring Poland to a halt in protest against liberals in the central bank and iniquitous bureaucrats in Brussels. In the last elections it won 10 percent of the votes and 53 seats.

When the Belarusian Federation of Trade Unions convoked a rally against the government's bungled economic policies at the end of March, less than 1000 people turned up. Restrictions imposed by the often violent authorities coupled with sabotage by pro-government unions assured the dismal flop.

Public sector trade unions in Macedonia have been more successful in extracting concessions from the government in an election year, though not before they embarked on a nation-wide strike timed to coincide with an ill-fated visit of the IMF mission. Despite strident warnings from the itinerant delegates, the minimum wage was raised heftily as were salaries in the public sector. The unions are about to strike again in an effort to extend the settlement to other state functionaries.

Romanian union members took the streets on May 30 threatening to emulate Argentina's mass protests and shouting ominous anti-government and anti-IMF slogans. The government buckled under and agreed to raise the minimum wage by 70 percent within 12 months - as an opening gambit in the forthcoming round of bargaining. Industrial action in Romania in the past often ended in bloodshed and its governments are mindful of it. An agreement was signed with the prime minister on June 11.

On June 20, Spain's trade unions went on a general strike, contesting the prime minister's advanced plans to reform both hiring and firing laws and unemployment benefits. With both job protection and social safety nets threatened, the unions' success was less than striking. Only socialist dominated regions and cities responded and demonstrations flared up in only a couple of places.

The murder of a - second - government advisor on labor legislation in March has stiffened the Italian authorities' resolve to amend, however marginally, provisions pertaining to the reinstatement of "unfairly sacked" employees. Two small trade unions - CISL and UIL - have signed an agreement with the government last week, ditching a common front with CGIL, by far the largest syndicate with 5.4 million members. CGIL called for regional strikes through July 11, followed by a general strike in September and October. It will also challenge the amendments to the law in the Constitutional Court.

Solidarity recently called upon the Polish administration to withdraw its amendments to the labor code and to allow it to negotiate with employers the voluntary expunging of anti-labor clauses. In what they called a "historic manifestation", Solidarity teamed up with erstwhile rival left-wing union to demonstrate in front of the Ministry of Labor. About 400 people showed up.

The one country bucking the trend may be Tony Blair's United Kingdom. It has adopted a minimum wage and forces employers to bargain collectively with unions if most of their employees want them to. The number of such "recognition" agreements, according to "The Economist", tripled between 2000 and 2001, to 470. Union membership in the service sector and among women is rising.

Working days lost to strikes in Britain doubled from 1997, to almost 500,000 last year and the year before. Although a far cry from the likes of Ireland, Spain, France, and Italy - it is a worrisome trend. Interesting to note that many of the strikes are the result of performance-related wage gaps opening up among workers following botched privatizations (e.g., the railways, the post office). Bellicose, fogeyish, trade unions leverage the discontent bred by mismanagement to their advantage.

Failure to mobilize workers, half-hearted activism, acquiescence with policies implemented by right-wing governments, transformation into political parties, growing populism and anti-Europeanism - these are the hallmarks of these social movements in search of a cause.

As more and more workers join the ranks of the middle class, own shares, participate in management through stakeholder councils, go entrepreneurial or self-employed, join the mostly non-unionized service sector, compete with non-unionized and thus more competitive workers in their own country or globally, become temporary and contract workers, or lose their jobs - union membership plummets.

The ignominious implosion of Communism and socialism throughout Europe tainted the trade union movement, often linked to both. Membership was halved in Britain in the lat two decades. Union membership among the young in heavily unionized Sweden slumped to 47 percent last year - from 62 percent in 1995.

The failure of trade unions the world over to modernize only exacerbates this inexorable decline. The structure of a traditional trade union often reflected the configuration of the enterprise it had to tackle - hierarchical, centralized, top-down. But rigorously stratified corporations went the way of central planning.

Business resembles self-assembling ad-hoc networks, or a guerilla force - rather than the bottom heavy and elephantine organization of the early 20th century, when most unions were formed. Individual workers adapted to the ever-changing requirements of ever-shifting markets by increasing their mobility and adaptability and by immersing themselves in life-long education and training.

Consider the two ends of the spectrum: agency, freelance, and fixed-term contract employees (or even illegal aliens) and executives. Both are peripatetic. Workplace-orientated trade unionism cannot cater to their needs because they rarely stay put and because their skills are transferable.

The UK's Economic and Social research Council Future of Work Programme, launched in 1998, studied the role of trade unions in the rapidly changing landscape of labor. In Working Paper no. 7 titled "Beyond the Enterprise? Trade Unions and the Representation of Contingent Workers" published last year by the Cardiff Business School, the authors say:

"The empirical pattern revealed by the research is complex ... We also encountered situations where unions had made use of enterprise unionism to represent contingent workers. For example, enterprise collective agreements may be used to regulate the numbers of contingent workers employed together with their terms and conditions ... Departure from the enterprise model was most apparent within unions that organize freelance workers. The latter are mobile workers and unions adapt to their mobility by reliance on non-enterprise forms of representation. Amongst agency and fixed-term contract workers, however, there is more emphasis on integration of the needs of these workers in the dominant, enterprise model of union representation. In part, this reflects the fact that agency and contract workers can develop a long-term employment relationship ..."

Trade unions are adapting by modifying their recruitment methods. Unions solicit members in employment bureaus, temp agencies, job fairs. They offer "customized packages" of workplace-independent benefits and services dispensed by paid, roving, union officials, or sub-contractors. Many unions re-organized along geographical - rather than sectoral or enterprise-wide - lines.

Syndicates are in the throes of appropriating functions from both the public and the private sector. Some unions offer job placement services, training, requalification, and skill acquisition classes, legal aid, help in setting up a business, seminars and courses on anything from assertiveness to the art of negotiating.

In some countries, unions, having failed to negotiate with multiple employers in different sectors all at once, resorted to - mostly failed - attempts to unilaterally dictate to employers the employment terms of temporary, freelance, and contract workers. This was done, for example, by publishing fee schedules. Others negotiated enterprise agreements with labor supply firms, thus circumventing the employers.

Unions have always tried to sway legislation by lobbying, making political contributions, and endorsing political candidates - as they have this past week Gerhard Schroeder who is up for re-election in Germany come September. The unions' ability to mobilize the vote makes them a formidable force even in relatively non-unionized countries, such as the USA.

Recognizing their importance as a social institution, government or employer-financed unions still exist even in Western and better governed countries, such as Greece. In the former colonies of the British Empire, trade unions have to be approved by a registrar.

Unions act as think tanks, advocacy groups, and pressure groups rolled into one. They try to further job protection wherever possible - though the task is becoming increasingly untenable. Even old-fashioned unions put the media to good use in exerting pressure over their recalcitrant governments.

Some scholars urge the unions to diversify and embrace work-related issues of minorities, the disabled, gays and lesbians, or the old. Egged on by the ILO International Programme on the Elimination of Child Labour (IPEC), Nepal's three main trade unions have targeted child labor in their country. They issued a code of conduct applicable to all their members. This is an example of the convergence of trade unions and NGO's. Syndicates are recasting themselves as labor non-governmental organizations.

Britain's once belligerent 6.8 million members strong umbrella Trade Unions Congress (TUC) now talks about a partnership with employers and labor-input in management decision making. German-style institutionalized consultations with employees regarding labor matters and crucial business decisions are already enshrined in EU directives.

The unions are trying to modernize in form as well.

In Britain, trade unions put technology to good use. The Web sites of the TUC's member unions provide online membership application forms, information packs, and discussion of social and cultural issues. Jane Taylor, Information Manager at the Communications Workers Union, writing recently for the online research guides community, FreePint.com, commented about the new openness of the revamped unions:

"More and more unions are providing online access to their internal and external documents. Some only provide access to their journals, but others put a full range of their documents online. These are often the most interesting as they tend to be responses to government proposals, briefings on changes in employment legislation and briefings around the issues facing their members, whether they be teachers or postal workers."

But Web sites are insufficient weapons against the twin tsunamis of technological change and globalization. Unions often blame the latter - and its representatives, the WTO, the IMF, and the World Bank - of retarding workers' rights by imposing austerity measures on crumbling countries.

The ILO Bureau for Workers' Activities (ACTRAV) organized, last September, a get together between union activists and representatives of international financial institutions. The IMF's much vaunted poverty reduction strategy which calls for consultations with all social stakeholders, trade unions included, as a precondition for new lending, was derided by the Rwanda representative. Quoted in the ILO's December 2001 issue of the "World of Work", he complained:

"One day I was called to meet a representative of the Bretton Woods Institution, but only during breakfast in a big hotel in Kigali! I would have preferred to have him meet the inhabitants too. He would have seen homeless people, sick people, starving people. He would have seen that while the financial institutions produce tons of pages of reports, poor people continue to die by the thousands."

Others grumbled that the IMF had a strange way of "consulting" them - they were invited to listen to a monologue regarding the policies of the Fund and then dismissed. The usual criticism prevailed:

"When one knows that in Africa an employee feeds five or six people, how can the Bretton Woods Institutions speak of a reduction of poverty by requiring the layoff of 25 per cent of civil servants? ... And when the IMF demands that Bulgaria reduce salaries even more, when they are already so low, one cannot speak of a measure aiming to reduce poverty ... In this country at war (Colombia), where unionists are being assassinated, where workers live in fear for their lives, the IMF has just requested the government to show more flexibility on the labour market! Where will that lead?"

Even the ILO joined the chorus accusing the IMF of violating the ILO's core conventions by arguing against collective bargaining and the provision of social protection. The delegates also demanded a labor-related input in all WTO deliberations.

The landscape of labor unionism is subject to tectonic shifts. But unionism need not conform to its image of archaic obsolescence. UNI and Ver.di are examples of what can be achieved when a timely message is combined with sprightly management methods and more than a modicum of spin doctoring.

United Network International (UNI) held its first World Congress last September in Berlin. It is the outcome of a synergetic merger between IT, telecom, print, and media-entertainment unions. All told, UNI boasts 800 member unions in over 140 countries. It represents a break with both exclusively national and rigid sectoral unions.

It is a "global union" - a cross-country, cross-sector body of representatives. Its natural counterparts are multinationals and IFI's. It already signed agreements with OTE, Carrefour, and Telefonica - three global telecom firms. Ten such umbrella organizations exist under the auspices of the Brussels-based International Confederation of Free Trade Unions (ICFTU).

The 3 million members strong Ver.di is the outcome of a March 2001 merger of five German labor syndicates. It is a services only union in a country where professionals prefer to belong to less proletarian "associations", the modern equivalents of medieval guilds. Its muscle, though, is a response to the perceived threat of "transnational capital".

Yet, at the bottom of it all is the single member, the worker, who pays his or her dues and expects in return protection, better pay, better work conditions, larger benefits, and, above all, a sense of belonging and purpose. Referring to a ceremony to commemorate 20 years of Solidarity in Poland, a disgruntled former dissident welder poured his heart to the ILO's "World of Work":

"There are no workers at this feast, just men in coats and ties. Nothing remains of Solidarity except its name. It has lost its essence, they have betrayed and forgotten us."

This betrayal, the bourgeoisification and gentrification of trade union functionaries and erstwhile rebels, the cozying up to the powers that be, the bribes implicit in swapping the shop floor for the air conditioned offices and minibar-equipped limousines, the infusion of trade unionism with nationalistic or populist agendas - these corrupting compromises, expediencies, amenities and tranquilizers may constitute the real danger to the continued existence of the labor movement.

The Labour Divide

V. Employee Benefits and Ownership

By: Dr. Sam Vaknin

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Aligning the interests of management and shareholders in the West by issuing stock options to the former - has failed miserably. Options are frequently re-priced in line with the decline in share prices, thus denuding them of their main incentive. In other cases, fast eroding stock options motivated managers to manipulate the price of the underlying stock through various illegal and borderline practices. Stock options now constitute c. 60 percent of the pay of Fortune 500 executives.

Whitney Tilson of Tilson Capital Partners notes in "The Motley Fool" that the hidden dilution of corporate equity caused by stock options inflates the stated profit per share. In the USA, stock options are not treated as a business expense. Payment of the strike price by employees exercising their options augments cash flow from financing activities. Companies also get to deduct from their taxable income the difference between the strike price of the options and the market price of the stocks. As a result, overall earnings figures are exaggerated, sometimes grossly.

"The Economist" quotes studies by Bear Stearns, the Federal Reserve, and independent economists, such as the British anti-stock-options crusader, Andrew Smith.

These show that earnings per share may have been inflated by as much as 9 percent in 2000, that options amounted to c. 20 percent of the profits of big American firms (and three quarters of the profits of dot.coms), and that the distorted tax treatment of options overstated earnings growth by 2.5 percent annually between 1995 and 2000.

The Federal Reserve concludes:

"... There is presently no theoretical or empirical consensus on how stock options affect ... firm performance."

Towers Perrin, a leading global management consultancy, spot a trend.

"(There is) a move by employees towards placing greater emphasis on long-term incentive plans ... (This is) creating new international currencies in remuneration ... (There is) a rapid, worldwide growth in stock option plans ... Regardless of the type of company, stock options are much more widely used than performance plans, restricted stock plans, and other long-term incentive (LTI) programs in most countries."

Stock options are now used not only to reward employees - but also as retention tools, building up long term loyalty of employees to their workplace. Multinationals the world over, in an effort to counter competitive pressures exerted by their US adversaries in the global labour market, have resorted to employee stock options plans (ESOP).

Vesting periods and grant terms as well as the events which affect the conditions of ESOPs - in short, the exact structure and design of each plan - are usually determined by local laws and regulations as well as by the prevailing tax regime. As opposed to popular mythology, in almost all countries, options are granted at market price (i.e., fair market value) and subject to certain performance criteria ("hurdles").

Eligibility is mostly automatic and determined either by the employee's position or by his reporting level within the organization. Management in most countries was recently stripped of its discretionary powers to allocate options to employees - the inevitable outcome of widespread abuses.

Ed Burmeister of Baker McKenzie delineates two interlocking trends in the bulletin "Global Labour, Employment, and Employee Benefits":

"Two common trends are the broad-based, worldwide option grant, such as recently implemented at such companies as PepsiCo, Bristol-Myers, Squibb, Merck, and Eli Lilly & Company, and the extension of more traditional executive stock plans or rank-and-file, payroll-based stock purchase plans to employees of overseas subsidiaries. Employers are also beginning to implement stock-based incentive plans through use of offshore trusts.

These trends have led to increased scrutiny of equity-based compensation by overseas taxing and regulatory bodies. Certain trends, such as the relaxation of exchange and currency controls in Europe and South America, have favored the extension of U.S.-based equity compensation plans to overseas employees."

Granting stock options is only one of the ways to motivate an employee. Some companies award their workers with stocks, rather than options, a practice known as "non-restrictive stock bonus". Others dispense "phantom stocks" or "simulated equity plans" - using units of measurement and accounting whose value corresponds to the price fluctuations of a given number of shares. Yet others allow their employees to purchase company shares at a discount (section 423 stock purchase plans).

David Binns, Associate Director of the Foundation for Enterprise Development describes novel solutions to the intricate problem of customizing a global stock options and equity plan:

"Often the companies provide international staff with a 24-hour loan facility whereby they can direct a designated stock broker in the U.S. to give them a loan sufficient to exercise their options. The broker then immediately sells enough shares to pay off the loan and transaction fees and deposits the remaining shares in the employee's account.

"Another approach to international equity plans is to create an " International ESOP" in a tax-free haven. Each of the company's international subsidiaries are given an account within the trust and each participating employee has an individual account with the appropriate subsidiary. The subsidiary corporations then either purchase shares of the parent corporation based on profitability or receive grants of stock from the parent and those shares are allocated to the accounts of the participating employees. The shares are held in a trust for the employees; at termination of service, the ESOP trustee sells the employee's shares and makes a distribution of the proceeds to the employee. This has the advantage of alleviating securities registration concerns in most countries as well as avoiding certain country regulations associated with the ownership of shares in foreign corporations"

As far back as 1997, virtually all American, Canadian, and British companies offered one kind of LTI plan, or another. According to the Foundation for Enterprise Development, employees own significant blocks of shares - aggregately valued at more than $300-400 billion - in more than 15,000 American corporations. This amounts to 5-7 percent of the market capitalization of American firms. The process was facilitated by the confluence of divestiture, corporate downsizing, and privatization of state and federal assets.

Dramatic increases have occurred elsewhere as well. In Argentina - 40 percent of all firms offered LTI last year (compared to 20 percent in 1997). In Belgium, the swing was even more impressive - from 25 percent to 75 percent.

Hong Kong went from 25 percent to 50 percent. China - from 5 percent to 45 percent. Germany tripled from 20 to 60 percent. Italy jumped from 20 to half of all companies. Spain galloped from 5 to 50 percent. Even staid Switzerland went from 20 percent of all firms offering LTI - to 60 percent.

Stock options are gaining in popularity in central Europe as well. More than 10 percent of the employees of S&T, a Vienna-based IT solutions provider, owned stock options by the end of 2000. The company operates mainly in Slovenia, Slovakia, and the Czech Republic - but is fast expanding in a host of other countries, including Bulgaria and Russia.

"Internet Securities" - a publisher of emerging market news and information based in Bratislava, Bucharest, Budapest, Prague, Sofia, and Warsaw- also rewards its employees with stock options. The list is long and is getting longer by the day.

Watson Wyatt, a human resources consultancy, conducted a detailed survey among firms in CEE (central and east Europe) in 1999. It traced the introduction of non-wage employee benefits to the fierce competition for scarce human capital among multinationals at the beginning of the 1990's. Later, as qualified and skilled personnel became more abundant, employers faced the need to retain them.

Perks such as cars, death and disability insurance, medical benefits, training, and relocation and housing loans have become the norm in the leading EU candidates - Poland, Hungary, Czech Republic, the Baltic States, and Slovenia. Such habits are spreading even as far as Kazakhstan, where most workers enjoy supplementary medical benefits. But progress is by no means uniform. In some countries, such as Croatia, supplemental coverage extends to less than one quarter of the work force.

LTI programs are offered mainly by IT and telecom companies - 63 percent of the 25 surveyed by Watson Wyatt had an ESOP in place. But, as opposed to the practice in the West, few, if any, firms in CEE limit eligibility to the upper hierarchy. Still, management enjoys more sizable benefits that non-executive employees.

Watson Wyatt note that offering enhanced retirement benefits is fast becoming a major attraction and retention technique. Where state provision of pensions is insecure or dwindling - Russia, Bulgaria, Hungary, Slovenia - close to 20 percent of all workers had supplementary retirement funds provided by their employers in 1999.

Their ranks have been since joined by other pension-reforming countries, such as Croatia and Romania. Where pension reform has stalled - e.g., Lithuania and the Czech Republic - less than 1 percent of all workers enjoyed employer retirement largesse in 1999.

There is a convergence between East and West. Privatization in post-communist CEE countries often took the form of management and employee buyouts (MEBO). Employees ended up with small stakes in their firms, now owned by the managers. This model proved popular in countries as diverse as Croatia, Macedonia, Poland, Romania, Slovakia, and Slovenia.

In Poland, more than 1000 small and medium enterprises were privatized by "liquidation" - a management cum employee lease-buyout. Leveraged ESOP's - employees purchasing company shares over many years and on credit - played a part in at least 150 major Hungarian privatization deals.

Russia has become the country with the largest employee-ownership in the world. More than two thirds of the 12,000 medium and big Russian enterprises privatized after 1992 are majority owned by employees. But MEBO also characterized privatizations in France, the UK, Nigeria, Sri Lanka, Chile, Argentina, Pakistan, and Egypt, among many others.

More than 4 percent of all Dutch firms - c. 2000 in all - are partly employee-owned. More than 12,000 French companies sold $10 billion in shares to their employees - an average of $1000 per employee. Profit sharing schemes in firms with less than 50 employees are compulsory in France. More than a quarter of the workforce - some 5 million people - are covered by 16,000 such schemes. Ten thousand other, voluntary, plans cover 2.5 million workers.

Sixty percent of all MEBO's in the former East Germany relied on public financing. The government of British Columbia in Canada is equally involved through its "Employee Share Ownership Program". Chile provided employees with subsidized loans to purchase shares in privatized firms in what was dubbed "labour capitalism". Egypt encouraged the establishment of almost 150 Employee Shareholder Associations.

Initially, MEBO resulted in gross inefficiencies as the new owners looted their own firms and maintained an insupportably high level of employment. The newly private firms suffered from under-investment and poor management. Shoddy, unwanted, products and deficient marketing led to poor sales, massive layoffs, and labour conflicts. Employees were quick to turn around and sell their privatization vouchers or shares to their managers, to speculators, or to foreign investors.

Yet, as foreign capital replaced corrupt or inapt indigenous managers and as workers became more sophisticated and less amenable to manipulation - employee ownership began to bear fruit. China has learned the lesson and has introduced a gradual transition to employee ("social") ownership of enterprises at the grassroots, local community, level. It also strives to emulate Japan's extensive and successful experience since the early 1960's.

Employee ownership is evolving in ways the fathers of socialism would have approved of. Employees throughout Asia, Africa, and Latin America - egged on by the likes of the World Bank and regional development institutions - now form numerous collectives and labour or producer cooperatives. Some firms are even owned by trade unions through their proactive pension funds.

Jacquelyn Yates describes a typical cooperative in her essay "National Practices in Employee Ownership":

"... The employees own their firms. Typically, prospective members work for a probationary period, must apply to join the cooperative and are screened by a membership committee. Labor cooperatives vary in the percentage of their employees who are members. A common guideline is to take no more members than the cooperative can guarantee to employ on a full-time basis. Members make a capital contribution in kind or in cash, sometimes through payroll withholdings. This is the member's account value, which will be refunded (with or without interest), at the time of separation from the enterprise.

Governance is usually based on one vote for each member, and the elected directors of the enterprise set overall policy and hire top management. The main benefits of membership are job security, participation in the distribution of profits, and above average social benefits. Sometimes membership means participation in enterprise losses or making additional contributions to the reserve. In some countries, the assets of the cooperative can never be distributed to its members, preventing them from realizing long-term appreciation in the cooperative's value, but creating an incentive to continue it over many years."

Yates reviews other practices, such as the labour banks and the workingmen's funds. The former are financial institutions that invest in the shares of companies that employ their depositors. Workingmen's funds are collectively owned portfolios of the employer's stock owned by employees and they were first tried in Sweden. Similarly, the UK and Ireland have legalized the employee stock ownership trust.

Employee ownership of firms is a controversial issue with strange bedfellows on both sides of the raging debate. Thus, the idea has been fiercely resisted in the past by both employers and unions. There is no social consensus regarding the voting rights of stocks owned by employees, their voluntary or compulsory nature, their tax treatment, their relationship to retirement accounts, the desired length of holding period, the role of the unions and the state, employee representation on the board of directors and so on.

It is ironic, though, that the ostensible triumph of capitalism resulted in the resurgence of employee-ownership of the means of production. It seems that to preserve industrial peace as well as to motivate one's workers - sharing of ownership and its attendant pecuniary benefits is called for, on a scale which far exceeds anything dreamt of in socialist countries.

The Future of Work

By: Dr. Sam Vaknin

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A US Department of Labor report published, aptly, on Labor Day 1999, summed up the conventional wisdom regarding the future of this all-pervasive pastime we call "work". Agriculture will stabilize, service sector jobs will mushroom, employment in the manufacturing sector will be squeezed by "just in time" inventory and production systems and by labor-intensive imports. An ageing population and life-prolonging medicines will prop up the healthcare sector.

Yet, the much touted growth in services may partly be a statistical illusion. As manufacturing firms and households contracted out - or outsourced - hitherto internal functions, their employment shrank while boosting the job figures of their suppliers. From claims and wage processing to take-away restaurants and daycare centers, this shift from self-reliance to core competencies spawned off a thriving service sector. This trend was further enhanced by the integration of women in the workforce.

The landscape of future work will be shaped by technological change and globalization. The latter is erroneously considered to be the outcome of the former. But as "The Economist" has pointed out in a series of "School Briefs", the world has been much more globalized one hundred years ago, long before the Internet.

These two independent trends reinforce each other in a virtuous cycle which will profoundly impact the future of work. Enhanced flows of information increase market efficiency, partly through global competition and price transparency and partly through shorter product life cycles.

But innovation by itself would not have had such an impact on work patterns. Manufacturing techniques - chiefly miniaturization - had a profound effect on the relocation of work from factory and office to home and car. Machine tools and office equipment well into the 1980's were too cumbersome to install at home.

Today everyone has a telephone and many have a fax, a mobile phone, an Internet connection, and a PC. As a result, work-from-home and flextime are burgeoning. Increasingly - with the advent of Internet-enabled PDA's, laptops, beepers, and wireless access to e-mail and the Web - so does work-on-the-move: in cars, in trains, everywhere. Work has become ubiquitous.

This harks back to the past. Even at the end of the 19th century - at the height of the Industrial Revolution - more than half the population still worked from home. Farmers, medical doctors, blacksmiths, small time retailers - lived and slogged in combined business and domestic units. A steady career in an organisation is a recent invention, as William Bridges pointed out in his book "Job Shift".

Harlan Cleveland and Garry Jacobs explained the emergence of Organisation Man in the newsletter of the World Academy of Art and Science:

"The job -- the kind that you had, or hoped to get -- became a central fixture of life in industrial countries. Its importance was great because it served many needs. For managers and efficiency experts, job assignments were the key to assembly-line manufacturing. For union organizers, jobs protected the rights of workers. For political reformers, standardized civil service positions were the essence of good government. Jobs provided an identity to immigrants and recently urbanized farm workers. They provided a sense of security for individuals and an organizing principle for society."

Currently, three types of work are surfacing. Old, industrial-age, permanent, and workplace-bound jobs are increasingly the preserve of low and medium skilled workers - about 80 percent of the workforce in Britain. New, itinerant, ad-hoc, home-based, technology-intensive, brand-orientated, assignment-centered careers characterize another tenth of the workforce. Temporary and contract work work - mainly in services - account for the rest. It is a trichotomous landscape which supplanted the homogeneous labor universe of only two decades ago.

Nowadays, technologically-literate workers - highly skilled, adaptable, well-educated, and amenable to nontraditional work environments - are sought by employers and rewarded. The low skilled, computer-illiterate, uneducated, and conservative - lag behind.

In 1999, more than 13 million people in the USA alone held multiple jobs, or part time, or contract jobs (i.e., freelancing). Work from home and flextime accounted for one fifth of all other employees.

Contrary to their image as rigid labor marketplaces, self-employment and temporary work were more prevalent in the European Union (except Britain) than in the USA.

The Bureau of Labor statistics in the US Department of Labor noted these demographic changes to the workforce. Though pertaining to the USA, they are applicable, in varying degrees, to the rest of the world, with the exception of certain parts of Africa. America is a harbinger of trends in employment and of changes in the nature of work.

1. Labor force growth will slow down to an annual 0.2 percent after 2015 - compared to 2.6 percent between 1970-1980 and 1 percent during the last decade. This is when Baby Boomers start retiring and women's participation will level off. Women already make almost half the labor force. More than three quarters of all mothers are working. The propensity to hold a job is strongest among single mothers.

2. The median age of the labor force will reach a historically unprecedented 41 years in 2008 - compared to 35 in 1978. As middle management layers are made redundant by technology and as start-ups mature - experienced executives will be in great demand and short supply. Even retirees are being recalled as advisors, or managers of special projects. This - coupled with a dramatic increase in functional life expectancy - may well erode the very concept of retirement.

The Urban Institute predicted, for ABCNews, that, as Generation X, Generation Y, and young immigrants enter the workforce, it will be polarized between the under-25's and the over-45's.

3. Labor force growth is strongest among immigrants and minorities. In the USA, they will make up more than a quarter of the total workforce in 2008. Those with higher education and those devoid even of a high school diploma are over-represented among recent immigrants.

4. College graduates already earn twice as much - and their earnings are still growing in real terms - as people with a high school diploma whose inflation-adjusted earnings are dwindling. High school dropouts are four times as likely to be unemployed as college graduates. These disparities are going to be further exacerbated. On the job training allows people to catch up.

5. Five of the ten fastest growing occupations are computer-related and three are connected to healthcare. Yet, contrary to hype, half of the new jobs created by 2008 will still be in traditional, labor-intensive, sectors such as retail or trucking. One in two jobs - and two in three new ones - are in small companies, with less than 100 workers. Even behemoths, like General Motors, now resemble networks of small, autonomous, businesses and profit and loss centers.

6. Much hectoring and preaching notwithstanding, the burden of wage-related taxes and benefits in the USA is heavy, at one half the base salary - though it has held stable at this level since 1970.

7. The shift from defined benefit to defined contribution retirement plans continues apace. This enhances labor mobility as workers are able o "carry" their personal plans with them to new employers. Still, the looming social security crisis is far from resolved. In 1960, there were 5 workers per every beneficiary.

By 2060, there will be less than two. Moreover, close to a third of all beneficiaries will be the relatives of retired or deceased workers - rather than the pensioners themselves. This is likely to create severe social tensions between workers and beneficiaries.

8. Job tenure has decreased markedly in all age groups over the last two decades - but only among men. Both boom and bust contributed. Economic growth encourages job-hunting, job hopping, and job-shopping. Recessions foster downsizing and bankruptcies. Jobs are mainly obtained through nimble networking. This is especially true at the higher rungs of the income ladder.

Still, the median figure for job stability hasn't changed much since 1983 in both the USA and the UK. Moreover, some jobs - and employment in some states - are far more stable than others. Transformation across all professions took place among workers younger than 32 and workers with long tenure.

The job stability of the former decreased markedly. By the age of 32 they had already worked for 9 different firms, according to figures published by "The Economist". The job security of the latter has vanished as firms, until less than 2 years ago, succumbed to a "youth cult" and inanely rid themselves of precious social and professional capital.

Another phenomenon is the emergence of a Hollywood-like star system among ultra-skilled workers - both technical and executive. Many of them act as freelancers and get paid with a mixture of cash and equity. They regard themselves as a brand and engage in brand marketing on a global scale.

The more capable they are of managing organisational change, leading teams, and identifying business opportunities - the more rewarded they are, according to a study by Timothy Bresnahan, published in the June 1999 issue of the "Economic Journal".

9. About 3 percent of the workforce are employed through temporary help agencies. This is 6 times the figure in 1983. Public prejudices aside, even engineers and system analysts work as "temps". Many people prefer Mac-jobs, freelancing, or temporary assignments. It allows them to preserve their independence and free lifestyle. More than 90 percent of all Americans are happily ensconced in their jobs.

10. Work gradually encroaches on family life and leisure time. In 1969, couples aged 25-54 toiled a combined 56 hours a week. By 2000, they were spending 67 hours at work - or 70 hours if they were childless. This increasing absence has probably contributed to the disintegration of the nuclear family, the emergence of alternative family systems, and the loosening of community ties.

Workplaces and employers - and employment laws - have as much adapting to do as do employees.

The UK's Economic and Social research Council runs a Future of Work Programme, launched in 1998, to investigate "changing organisational forms and the reshaping of work". The program studies novel work-organisation structures - temporary work, franchise, multi-employer sites, partnerships, supply-chain collaboration, and variants of outsourcing, including outsourcing to the company's own employees.

In Working Paper no. 14 published November 2000, the authors say:

"The development of more complex organisational forms involving cross-organisation networking, partnerships, alliances, use of external agencies for core as well as peripheral activities, the growth of multi-employer sites and the blurring of public/private sector divide have implications for both the legal and the socially constituted nature of the employment relationship.

The notion of a clearly-defined employer-employee relationship becomes difficult to uphold under conditions where the employee is working in project teams or on site beside employees from other organisations, where responsibilities for performance or for health and safety are not clearly defined, or involve organisations other than the employer.

This blurring of the relationship affects not only legal responsibilities, grievance and disciplinary issues and the extent of transparency and equity in employment conditions, but also the definition, constitution, and implementation of the employment contract."

In a futuristic piece published in the last day of the millennium, ABCNews described "corporate hotels" where one would work with other employees from the vicinity. Up to one third of all employees will work from home, according to David Pearce Snyder of "The Futurist". Companies will share "hot desks" and start-up incubators will proliferate.

But the phenomenon of self-employment in conjunction with entrepreneurship, mostly in the framework of startups and mainly in the services and technology sectors - is still marginal. Contrary to contemporary myths, entrepreneurship and innovation are largely in-house corporate phenomena - known as "intrapreneurship".

Yet, workers did not benefit from the wealth created by both the technology-engendered productivity rise and the ensuing capital markets bubble. Analysts, such as Alan Harcrow of "Workforce" magazine have long been sounding the alarm: "The thing is, the average employee hasn't been able to enjoy the benefits of increased productivity. There's no reward."

A recent tome by Kevin Phillips - "Wealth and Democracy: A Political History of the American Rich" - claims:

"The top 1 percent pocketed 42 percent of the stock market gains between 1989 and 1997, while the top 10 percent of the population took 86 percent." Most American had more invested in their car than in their stock exchange portfolio. To Phillips, America is an old-fashioned, though no less pernicious for that, plutocracy.

No wonder that 40 percent of all employees hate the notion of working - though they may like the specific jobs they are in. Work is perceived by them as an evil necessary to finance their vacations, hobbies, and socializing - and, by many, as a form of exploitation. Insecure, bored, and disgruntled workers make bad entrepreneurs. Forced self-employment does not amount to entrepreneurship and, even in America, the former far outweighs the latter.

There are other ominous signs. The worker of the future will interface mainly with machines or with others through machines - often from home. The merging of home and work, the seamless fusion of leisure time and time on the job - are already creating a privacy backlash and "out of the rat race" social movements.

Admittedly, future workers are likely to be much more autonomous than their predecessors - either by working from home or by participating is "self-governing teams" and "stakeholder councils". Yet, the aforementioned blurring of boundaries between private life and working time will exact a heavy psychological and social toll. It will impact family life adversely and irreversibly. Job insecurity coupled with job hopping and personal branding will transform most elite workers into free - but anxious - agents trapped in a process of perpetual re-education.

As globalization and technological ubiquity proceed apace, competition will grow relentless and constant. Immigration and remote work will render it also global. Insurance claims processing, airline bookings, customer care, and many other business-support services are farmed out to India. Software development takes place in Israel and Ireland.

Society and community will unravel in the face of these sea changes. Social safety nets and social contracts - already stretched beyond their foreseen limits - will crumble. Job protection, tenure privileges, generous unemployment, retirement, and healthcare benefits - will all vanish from the law books and become a nostalgic memory. The dispossessed will grow in number and in restlessness. Wealth will further concentrate in the hands of the few - the educated, the skilled, the adaptable - with nary a trickle down effect.

Some scholars envision a plutocracy superimposed on a post-industrial proletariat . Dysfunctional families and disintegrating communities will prove inadequate in the face of growing racial tensions and crime. Ironically, this dystopian future may well be the inevitable outcome of this most utopian period - the present.

Immigrants and the Fallacy of Labour Scarcity

By: Dr. Sam Vaknin

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Jean-Marie Le Pen - France's dark horse presidential contender - is clearly emotional about the issue of immigration and, according to him, its correlates, crime and unemployment. His logic is dodgy at best and his paranoid xenophobia ill-disguised. But Le Pen and his ilk - from Carinthia to Copenhagen - succeeded to force upon European mainstream discourse topics considered hitherto taboos. For decades, the European far right has been asking all the right questions and proffering all the far answers.

Consider the sacred cow of immigration and its emaciated twin, labour scarcity, or labour shortage.

Immigrants can't be choosy. They do the dirty and dangerous menial chores spurned by the native population. At the other extreme, highly skilled and richly educated foreigners substitute for the dwindling, unmotivated, and incompetent output of crumbling indigenous education systems in the West. As sated and effete white populations decline and age, immigrants gush forth like invigorated blood into a sclerotic system.

According to the United Nations Population Division, the EU would need to import 1.6 million migrant workers annually to maintain its current level of working age population. But it would need to absorb almost 14 million new, working age, immigrants per year just to preserve a stable ratio of workers to pensioners.

Similarly hysterical predictions of labour shortages and worker scarcity abounded in each of the previous three historic economic revolutions.

As agriculture developed and required increasingly more advanced skills, the extended family was brutally thrust from self-sufficiency to insufficiency. Many of its functions - from shoemaking to education - were farmed out to specialists. But such experts were in very short supply. To overcome the perceived workforce deficiency, slave labour was introduced and wars were fought to maintain precious sources of "hands", skilled and unskilled alike.

Labour panics engulfed Britain - and later other industrialized nations such as Germany - during the 19th century and the beginning of the twentieth.

At first, industrialization seemed to be undermining the livelihood of the people and the production of "real" (read: agricultural) goods. There was fear of over-population and colonial immigration coupled with mercantilism was considered to be the solution.

Yet, skill shortages erupted in the metropolitan areas, even as villages were deserted in an accelerated process of mass urbanization and overseas migration. A nascent education system tried to upgrade the skills of the newcomers and to match labour supply with demand. Later, automation usurped the place of the more expensive and fickle laborer. But for a short while scarce labour was so strong as to be able to unionize and dictate employment terms to employers the world over.

The services and knowledge revolutions seemed to demonstrate the indispensability of immigration as an efficient market-orientated answer to shortages of skilled labour. Foreign scientists were lured and imported to form the backbone of the computer and Internet industries in countries such as the USA. Desperate German politicians cried "Kinder, not Inder" (children, not Indians) when chancellor Schroeder allowed a miserly 20,000 foreigners to emigrate to Germany on computer-related work visas.

Sporadic, skill-specific scarcities notwithstanding - all previous apocalyptic Jeremiads regarding the economic implosion of rich countries brought on by their own demographic erosion - have proven spectacularly false.

Some prophets of doom fell prey to Malthusian fallacies. According to these scenarios of ruination, state pension and health obligations grow exponentially as the population grays. The number of active taxpayers - those who underwrite these obligations - declines as more people retire and others migrate. At a certain point in time, the graphs diverge, leaving in their wake disgruntled and cheated pensioners and rebellious workers who refuse to shoulder the inane burden much longer. The only fix is to import taxable workers from the outside.

Other doomsayers gorge on "lumping fallacies". These postulate that the quantities of all economic goods are fixed and conserved. There are immutable amounts of labour (known as the "lump of labour fallacy"), of pension benefits, and of taxpayers who support the increasingly insupportable and tenuous system. Thus, any deviation from an infinitesimally fine equilibrium threatens the very foundations of the economy.

To maintain this equilibrium, certain replacement ratios are crucial. The ratio of active workers to pensioners, for instance, must not fall below 2 to 1. To maintain this ratio, many European countries (and Japan) need to import millions of fresh tax-paying (i.e., legal) immigrants per year.

Either way, according to these sages, immigration is both inevitable and desirable. This squares nicely with politically correct - yet vague - liberal ideals and so everyone in academe is content. A conventional wisdom was born.

Yet, both ideas are wrong. These are fallacies because economics deals in non-deterministic and open systems. At least nine forces countermand the gloomy prognoses aforementioned and vitiate the alleged need for immigration:

I. Labour Replacement

Labour is constantly being replaced by technology and automation. Even very high skilled jobs are partially supplanted by artificial intelligence, expert systems, smart agents, software authoring applications, remotely manipulated devices, and the like. The need for labour inputs is not constant. It decreases as technological sophistication and penetration increases. Technology also influences the composition of the work force and the profile of skills in demand.

As productivity grows, fewer workers produce more. American agriculture is a fine example. Less than 3 percent of the population are now engaged in agriculture in the USA. Yet, they produce many times the output produced a century ago by 30 percent of the population. Per capita the rise in productivity is even more impressive.

II. Chaotic Behaviour

All the Malthusian and Lumping models assume that pension and health benefits adhere to some linear function with a few well-known, actuarial, variables. This is not so. The actual benefits payable are very sensitive to the assumptions and threshold conditions incorporated in the predictive mathematical models used. Even a tiny change in one of the assumptions can yield a huge difference in the quantitative forecasts.

III. Incentive Structure

The doomsayers often assume a static and entropic social and economic environment. That is rarely true, if ever. Governments invariably influence economic outcomes by providing incentives and disincentives and thus distorting the "ideal" and "efficient" market.

The size of unemployment benefits influences the size of the workforce. A higher or lower pension age coupled with specific tax incentives or disincentives can render the most rigorous mathematical model obsolete.

IV. Labour Force Participation

At a labour force participation rate of merely 60% (compared to the USA's 70%) - Europe still has an enormous reservoir of manpower to draw on. Add the unemployed - another 8% of the workforce - to these gargantuan numbers - and Europe has no shortage of labour to talk of. These workers are reluctant to work because the incentive structure is titled against low-skilled, low-pay, work. But this is a matter of policy. It can be changed. When push comes to shove, Europe will respond by adapting, not by perishing, or by flooding itself with 150 million foreigners.

V. International Trade

The role of international trade - now a pervasive phenomenon - is oft-neglected. Trade allows rich countries to purchase the fruits of foreign labour - without importing the laborers themselves. Moreover, according to economic theory, trade is preferable to immigration because it embodies the comparative advantages of the trading parties. These reflect local endowments.

VI. Virtual Space

Modern economies are comprised 70% of services and are sustained by vast networks of telecommunications and transport. Advances in computing allow to incorporate skilled foreign workers in local economic activities - from afar. Distributed manufacturing, virtual teams (e.g., of designers or engineers or lawyers or medical doctors), multinationals - are all part of this growing trend. Many Indian programmers are employed by American firms without ever having crossed the ocean or making it into the immigration statistics.

VII. Punctuated Demographic Equilibria

Demographic trends are not linear. They resemble the pattern, borrowed from evolutionary biology, and known as "punctuated equilibrium". It is a fits and starts affair. Baby booms follow wars or baby busts. Demographic tendencies interact with economic realities, political developments, and the environment.

VIII. Emergent Social Trends

Social trends are even more important than demographic ones. Yet, because they are hard to identify, let alone quantify, they are scarcely to be found in the models used by the assorted Cassandras and pundits of international development agencies. Arguably, the emergence of second and third careers, second families, part time work, flextime, work-from-home, telecommuting, and unisex professions have had a more decisive effect on our economic landscape than any single demographic shift, however pronounced.

IX. The Dismal Science

Immigration may contribute to growing mutual tolerance, pluralism, multiculturalism, and peace. But there is no definitive body of evidence that links it to economic growth. It is easy to point at immigration-free periods of unparalleled prosperity in the history of nations - or, conversely, at recessionary times coupled with a flood of immigrants.

So, is Le Pen right?

Only in stating the obvious: Europe can survive and thrive without mass immigration. The EU may cope with its labour shortages by simply increasing labour force participation. Or it may coerce its unemployed (and women) into low-paid and 3-d (dirty, dangerous, and difficult) jobs. Or it may prolong working life by postponing retirement. Or it may do all the above - or none. But surely to present immigration as a panacea to Europe's economic ills is as grotesque a caricature as Le Pen has ever conjured.

The Morality of Child Labor

By: Dr. Sam Vaknin

Also published by United Press International (UPI)

From the comfort of their plush offices and five to six figure salaries, self-appointed NGO's often denounce child labor as their employees rush from one five star hotel to another, $3000 subnotebooks and PDA's in hand. The hairsplitting distinction made by the ILO between "child work" and "child labor" conveniently targets impoverished countries while letting its budget contributors - the developed ones - off-the-hook.

Reports regarding child labor surface periodically. Children crawling in mines, faces ashen, body deformed. The agile fingers of famished infants weaving soccer balls for their more privileged counterparts in the USA. Tiny figures huddled in sweatshops, toiling in unspeakable conditions. It is all heart-rending and it gave rise to a veritable not-so-cottage industry of activists, commentators, legal eagles, scholars, and opportunistically sympathetic politicians.

Ask the denizens of Thailand, sub-Saharan Africa, Brazil, or Morocco and they will tell you how they regard this altruistic hyperactivity - with suspicion and resentment. Underneath the compelling arguments lurks an agenda of trade protectionism, they wholeheartedly believe. Stringent - and expensive - labor and environmental provisions in international treaties may well be a ploy to fend off imports based on cheap labor and the competition they wreak on well-ensconced domestic industries and their political stooges.

This is especially galling since the sanctimonious West has amassed its wealth on the broken backs of slaves and kids. The 1900 census in the USA found that 18 percent of all children - almost two million in all - were gainfully employed. The Supreme Court ruled unconstitutional laws banning child labor as late as 1916. This decision was overturned only in 1941.

The GAO published a report last week in which it criticized the Labor Department for paying insufficient attention to working conditions in manufacturing and mining in the USA, where many children are still employed. The Bureau of Labor Statistics pegs the number of working children between the ages of 15-17 in the USA at 3.7 million. One in 16 of these worked in factories and construction. More than 600 teens died of work-related accidents in the last ten years.

Child labor - let alone child prostitution, child soldiers, and child slavery - are phenomena best avoided. But they cannot and should not be tackled in isolation. Nor should underage labor be subjected to blanket castigation. Working in the gold mines or fisheries of the Philippines is hardly comparable to waiting on tables in a Nigerian or, for that matter, American restaurant.

There are gradations and hues of child labor. That children should not be exposed to hazardous conditions, long working hours, used as means of payment, physically punished, or serve as sex slaves is commonly agreed. That they should not help their parents plant and harvest may be more debatable.

As Miriam Wasserman observes in "Eliminating Child Labor", published in the Federal Bank of Boston's "Regional Review", second quarter of 2000, it depends on "family income, education policy, production technologies, and cultural norms." About a quarter of children under-14 throughout the world are regular workers. This statistic masks vast disparities between regions like Africa (42 percent) and Latin America (17 percent).

In many impoverished locales, child labor is all that stands between the family unit and all-pervasive, life threatening, destitution. Child labor declines markedly as income per capita grows. To deprive these bread-earners of the opportunity to lift themselves and their families incrementally above malnutrition, disease, and famine - is an apex of immoral hypocrisy.

Quoted by "The Economist", a representative of the much decried Ecuador Banana Growers Association and Ecuador's Labor Minister, summed up the dilemma neatly: “Just because they are under age doesn't mean we should reject them, they have a right to survive. You can't just say they can't work, you have to provide alternatives.”

Regrettably, the debate is so laden with emotions and self-serving arguments that the facts are often overlooked.

The outcry against soccer balls stitched by children in Pakistan led to the relocation of workshops ran by Nike and Reebok. Thousands lost their jobs, including countless women and 7000 of their progeny. The average family income - anyhow meager - fell by 20 percent. Economists Drusilla Brown, Alan Deardorif, and Robert Stern observe wryly:

“While Baden Sports can quite credibly claim that their soccer balls are not sewn by children, the relocation of their production facility undoubtedly did nothing for their former child workers and their families."

Such examples abound. Manufacturers - fearing legal reprisals and "reputation risks" (naming-and-shaming by overzealous NGO's) - engage in preemptive sacking. German garment workshops fired 50,000 children in Bangladesh in 1993 in anticipation of the American never-legislated Child Labor Deterrence Act.

Quoted by Wasserstein, former Secretary of Labor, Robert Reich, notes:

“Stopping child labor without doing anything else could leave children worse off. If they are working out of necessity, as most are, stopping them could force them into prostitution or other employment with greater personal dangers. The most important thing is that they be in school and receive the education to help them leave poverty."

Contrary to hype, three quarters of all children work in agriculture and with their families. Less than 1 percent work in mining and another 2 percent in construction. Most of the rest work in retail outlets and services, including "personal services" - a euphemism for prostitution. UNICEF and the ILO are in the throes of establishing school networks for child laborers and providing their parents with alternative employment.

But this is a drop in the sea of neglect. Poor countries rarely proffer education on a regular basis to more than two thirds of their eligible school-age children. This is especially true in rural areas where child labor is a widespread blight. Education - especially for women - is considered an unaffordable luxury by many hard-pressed parents. In many cultures, work is still considered to be indispensable in shaping the child's morality and strength of character and in teaching him or her a trade.

"The Economist" elaborates:

"In Africa children are generally treated as mini-adults; from an early age every child will have tasks to perform in the home, such as sweeping or fetching water. It is also common to see children working in shops or on the streets. Poor families will often send a child to a richer relation as a housemaid or houseboy, in the hope that he will get an education."

A solution recently gaining steam is to provide families in poor countries with access to loans secured by the future earnings of their educated offspring. The idea - first proposed by Jean-Marie Baland of the University of Namur and James A. Robinson of the University of California at Berkeley - has now permeated the mainstream.

Even the World Bank has contributed a few studies, notably, in June, "Child Labor: The Role of Income Variability and Access to Credit Across Countries" authored by Rajeev Dehejia of the NBER and Roberta Gatti of the Bank's Development Research Group.

Abusive child labor is abhorrent and should be banned and eradicated. All other forms should be phased out gradually. Developing countries already produce millions of unemployable graduates a year - 100,000 in Morocco alone. Unemployment is rife and reaches, in certain countries - such as Macedonia - more than one third of the workforce. Children at work may be harshly treated by their supervisors but at least they are kept off the far more menacing streets. Some kids even end up with a skill and are rendered employable.

The Iron Union - A Profile of IG Metall

By: Dr. Sam Vaknin

Also published by United Press International (UPI)

A measure of IG Metall's clout is the persistent rumor that the ECB has held off on sorely needed interest rates cuts on account of the German trade union's wage demands. Moreover, though, with 2.7 million members, it is only the second largest, IG Metall serves as the benchmark and the trendsetter to less veteran or less sonorous unions in Germany.

Ver.di, the service sector's behemoth, with 3 million members, waited for IG Metall's regional wage boards to pronounce their sentence before plunging into its own negotiations with employers. Miraculously, it - and many other unions - ended up demanding the very same pay rise as did the metal-bashers. IG Metall's standing reflects the historical reverence accorded in Germany to the engineering and scientific professions.

IG Metall justified the outlandish wage increases it insists on (4-5 percent) - and the impending strike in Baden-Württemberg by 50,000 (out of 3.6 million) metalworkers on May 6 - by saying that the raises will boost domestic consumption and revive the flagging economy. Some of the extra money will be used to modernize the pay framework agreements and equate the status and the remuneration of blue collar and white collar workers doing "similar" jobs.

Warning strikes have already erupted over the last few weeks. The main employers' federation, Gesamtmetall, threatened the striking employees with lockouts.

The strike may yet be averted. Employers are offering an across the board hike of 3.3 percent over the next 15 months and a one time cash handout of $170 per worker. This is imperceptibly lower than IG Metall's target of 4 percent. IG Metall is likely to buckle down and agree to arbitration or mediation, perhaps by the embattled Schroeder, though he is reluctant to gamble his political future on the outcome as he has done two years ago. A compromise of 3.6 percent is likely, though. As IG Metall knows, many an invincible union perished through bungled strikes.

Moreover, IG Metall's previous strike was in 1995 and it cannot afford to alienate a socialist Chancellor who is in the throes of a re-election campaign.

Still, it is implausibly threatening to spread the unrest from its stronghold, the southern state of Baden-Württemberg, to Berlin and Brandenburg. Ominous mutterings of a repeat of the mythical six weeks strike in the spring of 1984 abound.

This reads like a repeat of the wage negotiations in 2000. Then, as now, IG Metall demanded an increase of 5.5 percent as well as a reduction in retirement age to 60 and in the working week to 32 hours. Warning strikes petered out and the union capitulated by accepting a two year contract with modest pay rises (3 percent in 2000 and 2.1 percent in 2001).

The two previous annual wage settlements trailed inflation, expected to reach 2 percent this year. They reflected only a part of the handsome productivity gains throughout German industry. Net profits in IG Metall's sectors climbed from 1 billion DM in 1993 (a recession year) to 55 billion DM in 2000.

Real unit labour costs tumbled - but mainly due to massive layoffs. More than 1.5 million workers out of a total of 5 million in 1991 were sacked. IG Metall wants its members to recoup some of their past generosity. In a typical German euphemism, this grab is called a "redistribution component".

Admittedly, German employers abused the union's relative wage restraint during the 1990's. They did not create additional employment, nor did they invest in the retraining and re-qualification of workers made redundant. The union justly claims that wage moderation only fostered the transfer of wealth from labour to capital (i.e., from employees to shareholders).

Whatever the outcome of this industrial action, the employers will foot the bill. "Frankfurter Allgemeine" estimates that every day of the strike would translate to a whopping $2.3 billion in lost net output. Each 0.1 percent in wage increases costs the metal and electric industries c. $140 million a year. This in an industry mired in declining orders and falling production.

IG Metall's Web site is a militant affair. "Right to Strike - Away with the anti-strike paragraphs!" -it thunders. "Strike is a civil right - lockout is a misuse of power" - it preaches. It even provides practical "how-to-strike" guides, tips for strikers, and promotes a new model of "flexi-strike".

IG Metal is strict about the universal implementation of the collective agreements it painstakingly negotiates with employers. Such agreements typically tackle not only wage levels but issues like training, reduction in working time, safeguarding jobs, and equating eastern pay with western standards. The comprehensiveness and all-pervasiveness of the collective bargains is Procrustean.

"The Economist" reports the case of Viessmann, a German engineering firm. To avoid shifting the production of a new boiler to the Czech Republic, it negotiated with its workers an increase in the working week without a commensurate pay rise. IG Metall blocked the deal, though it later compromised.

This is a typical story. The collective agreements in 2000 and 2001 were an aberration and a political concession to a socialist regime in trouble. In contrast, wages rose 4.1 percent in workplaces covered by the 1999 settlement with IG Metall - most of them multinationals who exploited the agreement's egregious terms to squeeze their indigenous Mittelstand suppliers.

IG Metall is notoriously intransigent. Unlike its brethren in other industries, it refuses to link pay rises (or even annual bonuses) to profitability, for instance. It rejects the idea of implementing, by mutual consent of employees and employers, wage reductions or overtime to prevent lay-offs. It abhors profit sharing schemes, either regional, or sectoral, or even confined to the single plant level.

It would not sign two-year pay agreements based on "bad experience" in the past. Many exasperated firms resort to the profligate exercise of "opening (escape) clauses". They renege on the collective agreements without being seen to flout the rules.

Employers ask employees to continue the working day at home after hours. Some workers clock out but continue to work all the same. Other firms - especially in the east - opt out of the employers' associations altogether, thus exempting themselves from onerous collective pay agreements.

Many attribute IG Metall's irrational exuberance to its rational fears of becoming marginalized and irrelevant. Wage increases - the union's only political leverage - are hard to negotiate in an environment of stable and low inflation, high unemployment, and ever more flexible labour markets.

The unions hitherto refrained from tackling the most pressing issues: flexible time, part time work, retirement, low wage jobs, social security reform, illegal immigrants. IG Metall spent the last 15 years negotiating an agreement to apply uniform wage criteria to blue-collar and white-collar workers.

The "Alliance for Work" pact between unions, employees, and government, proposed by its Chairman, Klaus Zwickel, in its 18th convention in 1995, went nowhere effective, though it was signed by all three parties. It included revolutionary ideas like linking pay to productivity - in return for job creation by the private sector and unemployment subsidies by the state.

This was also the fate of a 1997 initiative to reduce working hours in parallel with wages in order to boost job formation.

Paradoxically, the higher the pay of its members - the less strike-prone is the union. Lay-off and strike pay doled out by the union is a function of the striking member's base wage. Add to this current expenditures - IG Metall employs more than 2000 people in its headquarters alone - and the limits of its postured belligerence become discernible.

In a major survey conducted last year in the framework of the unions' "Debate on the Future" initiative, 78 percent of German workers - union members and non-members alike - professed to being more interested in job security than in higher pay. Nine out of 10 respondents expected the unions to support secure jobs and fight unemployment.

Some workers begin to fathom the union's role in destroying employment by foisting a non-competitive wage structure upon reluctant employers. Eighty percent of employees surveyed expected IG Metall to do much more for the unemployed. Regrettably, the vast majority of the membership of IG Metall are still pugnacious and under the sway of populist activists.

Even so, IG Metall is past its heyday. It is the anachronistic outcome of numerous mergers with other fading unions in the plastics, textile, and wood industries. Despite these acquisitions and the influx of East German laborers, its membership hasn't budged since the early 1980's. In the 1990's alone it has declined by more than a million members - almost one third of the total - despite acquiring a million new members from the east.

One third of the members are retired. Less than 7 percent are under the age of 25. Women are deserting the union in droves. IG Metall represents less than 30 percent of actively employed workers in its industrial sectors.

In its "Debate on the Future" survey only 5 percent of all respondents said they would "definitely" join IG Metall. Only 3 percent imagined a long-term membership. Two thirds of the unorganized employees surveyed said they have no interest whatsoever in becoming union members.

The surges in membership that followed previous confrontations with employers seem to have abated. And 1 percent of gross wages in membership dues is a lot to pay for ill-defined and uncertain benefits. The average wage in industry - among the highest in the world - amounts to $37,000 a year, including social security contributions.

To make matters worse, in the last few significant rounds of wage negotiations, IG Metal lost its traditional bellwether role to IG BCE, the more nimble union of workers in the chemical and energy sectors. This much smaller new union signed the first collective agreements each time, thus weakening IG Metall's hand in its own negotiations.

There are cracks in IG Metall's hitherto uniform ideological facade. On March 1998 it signed an agreement with Debis - a group of car makers and metal bashing firms represented by Daimler-Benz. It agreed to let the employers decide how to flexibly implement a reduced working week of 35 hours. Five thousand companies had individual contracts with unions by the end of 1997.

Last August, bowing to political pressures by the SDP and the public outcry of its own members, IG Metall signed a plant level agreement with Volkswagen. This vitiated its insistence on exclusive industry-wide agreements. Moreover, the VW deal includes flexible work rules and pay. Five thousand workers are each to be paid 5000 DM a month to produce Volkswagen's 5000 model.

The convergence of the manufacturing and services sectors leads to mergers or collaborative efforts among competing unions. Fields like Information Technology (IT), telecommunications, pharmaceutics, and biotechnology blur the lines between knowledge and production.

Last year, for instance, IG Metall created a joint bargaining committee with the new umbrella services union, Ver.di. The committee - the indirect outcome of arbitration involving the two unions - will represent all of IBM's 26,000 workers in its German subsidiaries. Ver.di includes as one of its components one of IG Metall's most bitter rival unions, DAG.

But it would take a determined - and somewhat Thatcherite - government to face the unions down. Many German luminaries advocate a sea change in the laws pertaining to strikes, labour relations, and wage bargaining. Strikes should be allowed only after mediation fails. Employers and employees should negotiate plant-level arrangements. These seismic shifts will not transpire without a bloodied fight. Unions are monopolies and they act as cartels. Their interests are overwhelmingly vested in the status quo.

Yet, such a showdown is long overdue - and victory is within reach. Only one in five working age Germans - less than 8 million - belong to a union. Overall membership deflated by almost two fifths since unification. Even the awesome industry wide agreements cover a mere one fourth of German firms in the east - and a one half of all businesses in the western Lander.

No wonder that IG Metall has in its sights targets in east Germany and in Germany's "sphere of influence". The union owns the Otto Brenner Foundation. It is named after IG Metall's first boss and was established in 1972 "to promote the metalworkers trade union". In 1997, its dismal finances were boosted by the serendipitous liquidation of IG Metall's assets in the former East Germany.

Though claiming to engage in impartial "scientific" research, the Foundation aims to spread the union gospel among the heathen of central and eastern Europe and, especially, the eastern German Lander. The Foundation's Administrative Board is appointed by IG Metall.

Perhaps in an effort to improve its public image, IG Metall issued, in January 1999, a press release in support of compensation for forced laborers in the metal industry. It notes that the 10 million slaves that toiled and perished in German factories during the Nazi occupation of Europe constituted 40 percent of Germany's industrial workforce. More than 1000 concentration camps were "directly near or on" company property.

It took IG Metall - an ostensibly leftist organization - almost 50 years to condemn the crimes of German business and industry during the Nazi era. It is a measure of the glacial tempo of its decision making processes. Nothing seems to shake it from its well rehearsed torpor. It, therefore, is probably doomed to share the fate of other unions - gradual but assured dissipation.

The Demise of the Work Ethic

By: Sam Vaknin

Airplanes, missiles, and space shuttles crash due to lack of maintenance, absent-mindedness, and pure ignorance. Software support personnel, aided and abetted by Customer Relationship Management application suites, are curt (when reachable) and unhelpful. Despite expensive, state of the art supply chain management systems, retailers, suppliers, and manufacturers habitually run out of stocks of finished and semi-finished products and raw materials. People from all walks of life and at all levels of the corporate ladder skirt their responsibilities and neglect their duties.

Whatever happened to the work ethic? Where is the pride in the immaculate quality of one's labor and produce?

Both dead in the water. A series of earth-shattering social, economic, and technological trends converged to render their jobs loathsome to many - a tedious nuisance best avoided.

1. ***Job security*** is a thing of the past. Itinerancy in various McJobs reduces the incentive to invest time, effort, and resources into a position that may not be yours next week. Brutal layoffs and downsizing traumatized the workforce and produced in the typical workplace a culture of obsequiousness, blind obeisance, the suppression of independent thought and speech, and avoidance of initiative and innovation. Many offices and shop floors now resemble prisons.

2. ***Outsourcing and offshoring*** of back office (and, more recently, customer relations and research and development) functions sharply and adversely effected the quality of services from helpdesks to airline ticketing and from insurance claims processing to remote maintenance. Cultural mismatches between the (typically Western) client base and the offshore service department (usually in a developing country where labor is cheap and plenty) only exacerbated the breakdown of trust between customer and provider or supplier.

3. The populace in developed countries are addicted to ***leisure time***. Most people regard their jobs as a necessary evil, best avoided whenever possible. Hence phenomena like the permanent temp - employees who prefer a succession of temporary assignments to holding a proper job. The media and the arts contribute to this perception of work as a drag - or a potentially dangerous addiction (when they portray raging and abusive workaholics).

4. The other side of this dismal coin is ***workaholism*** - the addiction to work. Far from valuing it, these addicts resent their dependence. The job performance of the typical workaholic leaves a lot to be desired. Workaholics are fatigued, suffer from ancillary addictions, and short attention spans. They frequently abuse substances, are narcissistic and destructively competitive (being driven, they are incapable of team work).

5. The ***depersonalization of manufacturing*** - the intermediated divorce between the artisan/worker and his client - contributed a lot to the indifference and alienation of the common industrial worker, the veritable "anonymous cog in the machine".

Not only was the link between worker and product broken - but the bond between artisan and client was severed as well. Few employees know their customers or patrons first hand. It is hard to empathize with and care about a statistic, a buyer whom you have never met and never likely to encounter. It is easy in such circumstances to feel immune to the consequences of one's negligence and apathy at work. It is impossible to be proud of what you do and to be committed to your work - if you never set eyes on either the final product or the customer! Charlie Chaplin's masterpiece, "Modern Times" captured this estrangement brilliantly.

6. Many former employees of mega-corporations abandon the rat race and establish their own businesses - ***small and home enterprises***. Undercapitalized, understaffed, and outperformed by the competition, these fledging and amateurish outfits usually spew out shoddy products and lamentable services - only to expire within the first year of business.

7. Despite decades of advanced notice, ***globalization*** caught most firms the world over by utter surprise. Ill-prepared and fearful of the onslaught of foreign competition, companies big and small grapple with logistical nightmares, supply chain calamities, culture shocks and conflicts, and rapacious competitors. Mere survival (and opportunistic managerial plunder) replaced client satisfaction as the prime value.

8. The decline of the ***professional guilds*** on the one hand and the trade unions on the other hand greatly reduced worker self-discipline, pride, and peer-regulated quality control. Quality is monitored by third parties or compromised by being subjected to Procrustean financial constraints and concerns.

The investigation of malpractice and its punishment are now at the hand of vast and ill-informed bureaucracies, either corporate or governmental. Once malpractice is exposed and admitted to, the availability of malpractice insurance renders most sanctions unnecessary or toothless. Corporations prefer to bury mishaps and malfeasance rather than cope with and rectify them.

9. The quality of one's work, and of services and products one consumed, used to be guaranteed. One's personal idiosyncrasies, eccentricities, and problems were left at home. Work was sacred and one's sense of self-worth depended on the satisfaction of one's clients. You simply didn't let your personal life affect the standards of your output.

This strict and useful separation vanished with the rise of the malignant-narcissistic variant of ***individualism***. It led to the emergence of idiosyncratic and fragmented standards of quality. No one knows what to expect, when, and from whom. Transacting business has become a form of psychological warfare. The customer has to rely on the goodwill of suppliers, manufacturers, and service providers - and often finds himself at their whim and mercy. "The client is always right" has gone the way of the dodo. "It's my (the supplier's or provider's) way or the highway" rules supreme.

This uncertainty is further exacerbated by the pandemic eruption of mental health disorders - 15% of the population are severely pathologized according to the latest studies. Antisocial behaviors - from outright crime to pernicious passive-aggressive sabotage - once rare in the workplace, are now abundant.

The ethos of teamwork, tempered collectivism, and collaboration for the greater good is now derided or decried. Conflict on all levels has replaced negotiated compromise and has become the prevailing narrative. Litigiousness, vigilante justice, use of force, and "getting away with it" are now extolled. Yet, conflicts lead to the misallocation of economic resources. They are non-productive and not conducive to sustaining good relations between producer or provider and consumer.

10. ***Moral relativism*** is the mirror image of rampant individualism. Social cohesion and discipline diminished, ideologies and religions crumbled, and anomic states substituted for societal order. The implicit contracts between manufacturer or service provider and customer and between employee and employer were shredded and replaced with ad-hoc negotiated operational checklists. Social decoherence is further enhanced by the anonymization and depersonalization of the modern chain of production (see point 5 above).

Nowadays, people facilely and callously abrogate their responsibilities towards their families, communities, and nations. The mushrooming rate of divorce, the decline in personal thrift, the skyrocketing number of personal bankruptcies, and the ubiquity of venality and corruption both corporate and political are examples of such dissipation. No one seems to care about anything. Why should the client or employer expect a different treatment?

11. The ***disintegration of the educational systems*** of the West made it difficult for employers to find qualified and motivated personnel. Courtesy, competence, ambition, personal responsibility, the ability to see the bigger picture (synoptic view), interpersonal aptitude, analytic and synthetic skills, not to mention numeracy, literacy, access to technology, and the sense of belonging which they foster - are all products of proper schooling.

12. ***Irrational beliefs***, pseudo-sciences, and the occult rushed in to profitably fill the vacuum left by the crumbling education systems. These wasteful preoccupations encourage in their followers an overpowering sense of fatalistic determinism and hinder their ability to exercise judgment and initiative. The discourse of commerce and finance relies on unmitigated rationality and is, in essence, contractual. Irrationality is detrimental to the successful and happy exchange of goods and services.

Also Read

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The Labour Divide - III. Entrepreneurship and Workaholism

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The Labour Divide - VI. The Future of Work

Immigrants and the Fallacy of Labour Scarcity

Industrial Action and Competition Laws

The Good, the Bad and the Ugly:
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Growing Out of Unemployment

Meritocracy and Brain Drain

The Professions of the Future

Workaholism, Leisure and Pleasure

The Morality of Child Labor

Propaganda by Deed

Competition Laws and Industrial Action

By: Sam Vaknin, Ph.D.

Should the price of labor (wages) and its conditions be left entirely to supply and demand in a free market - or should they be subject to regulation, legislation, and political action?

Is industrial action a form of monopolistic and , therefore, anti-competitive behavior?

Should employers be prevented from hiring replacement labor in lieu of their striking labor-force? Do workers have the right to harass and intimidate such "strike breakers" in picket lines?

In this paper, I aim to study anti-trust and competition laws as they apply to business and demonstrate how they can equally be applied to organized labor.

A. THE PHILOSOPHY OF COMPETITION

The aims of competition (anti-trust) laws are to ensure that consumers pay the lowest possible price (the most efficient price) coupled with the highest quality of the goods and services which they consume. Employers consume labor and, in theory, at least, have the same right.

This, according to current economic theories, can be achieved only through effective competition. Competition not only reduces particular prices of specific goods and services - it also tends to have a deflationary effect by reducing the general price level. It pits consumers against producers, producers against other producers (in the battle to win the heart of consumers), labor against competing labor (for instance, migrants), and even consumers against consumers (for example in the healthcare sector in the USA).

This perpetual conflict miraculously increases quality even as prices decrease. Think about the vast improvement on both scores in electrical appliances. The VCR and PC of yesteryear cost thrice as much and provided one third the functions at one tenth the speed.

Yet, labor is an exception. Even as it became more plentiful - its price skyrocketed unsustainably in the developed nations of the world. This caused a shift of jobs overseas to less regulated and cheaper locations (offshoring and outsourcing).

Competition has innumerable advantages:

a. It encourages manufacturers and service providers (such as workers) to be more efficient, to better respond to the needs of their customers (the employers), to innovate, to initiate, to venture. It optimizes the allocation of resources at the firm level and, as a result, throughout the national economy. More simply: producers do not waste resources (capital), consumers and businesses pay less for the same goods and services and, as a result, consumption grows to the benefit of all involved.

b. The other beneficial effect seems, at first sight, to be an adverse one: competition weeds out the failures, the incompetent, the inefficient, the fat and slow to respond to changing circumstances. Competitors pressure one another to be more efficient, leaner and meaner. This is the very essence of capitalism. It is wrong to say that only the consumer benefits. If a firm improves itself, re-engineers its production processes, introduces new management techniques, and modernizes in order to fight the competition, it stands to reason that it will reap the rewards. Competition benefits the economy, as a whole, the consumers and other producers by a process of natural economic selection where only the fittest survive. Those who are not fit to survive die out and cease to waste scarce resources.

Thus, paradoxically, the poorer the country, the less resources it has - the more it is in need of competition. Only competition can secure the proper and most efficient use of its scarce resources, a maximization of its output and the maximal welfare of its citizens (consumers).

Moreover, we tend to forget that the biggest consumers are businesses (firms) though the most numerous consumers are households. If the local phone company is inefficient (because no one competes with it, being a monopoly) - firms suffer the most: higher charges, bad connections, lost time, effort, money and business. If the banks are dysfunctional (because there is no foreign competition), they do not properly service their clients and firms collapse because of lack of liquidity. It is the business sector in poor countries which should head the crusade to open the country to competition.

Unfortunately, the first discernible results of the introduction of free marketry are unemployment and business closures. People and firms lack the vision, the knowledge and the wherewithal needed to sustain competition. They fiercely oppose it and governments throughout the world bow to protectionist measures and to trade union activism.

To no avail. Closing a country to competition (including in the labor market) only exacerbates the very conditions which necessitated its opening up in the first place. At the end of such a wrong path awaits economic disaster and the forced entry of competitors. A country which closes itself to the world is forced to sell itself cheaply as its economy becomes more and more inefficient, less and less competitive.

Competition Laws aim to establish fairness of commercial conduct among entrepreneurs and competitors which are the sources of said competition and innovation. But anti-trust and monopoly legislation and regulation should be as rigorously applied to the holy cow of labor and, in particular, organized labor.

Experience - buttressed by research - helped to establish the following four principles:

1. There should be no barriers to the entry of new market players (barring criminal and moral barriers to certain types of activities and to certain goods and services offered). In other words, there should be no barrier to hiring new or replacement workers at any price and in any conditions. Picket lines are an anti-competitive practice.

2. The larger the operation, the greater the economies of scale (and, usually, the lower the prices of goods and services).
   This, however, is not always true. There is a Minimum Efficient Scale - MES - beyond which prices begin to rise due to the monopolization of the markets. This MES was empirically fixed at 10% of the market in any one good or service. In other words: trade and labor unions should be encouraged to capture up to 10% of their "market" (in order to allow prices to remain stable in real terms) and discouraged to cross this barrier, lest prices (wages) tend to rise again.

3. Efficient competition does not exist when a market is controlled by less than 10 firms with big size differences. An oligopoly should be declared whenever 4 firms control more than 40% of the market and the biggest of them controls more than 12% of it. This applies to organized labor as well.

4. A competitive price (wage) is comprised of a minimal cost plus an equilibrium "profit" (or premium) which does not encourage either an exit of workers from the workforce (because it is too low), nor their entry (because it is too high).

Left to their own devices, firms tend to liquidate competitors (predation), buy them out or collude with them to raise prices. The 1890 Sherman Antitrust Act in the USA forbade the latter (section 1) and prohibited monopolization or dumping as a method to eliminate competitors.

Later acts (Clayton, 1914 and the Federal Trade Commission Act of the same year) added forbidden activities: tying arrangements, boycotts, territorial divisions, non-competitive mergers, price discrimination, exclusive dealing, unfair acts, practices and methods. Both consumers and producers who felt offended were given access to the Justice Department and to the FTC or the right to sue in a federal court and be eligible to receive treble damages.

It is only fair to mention the "intellectual competition", which opposes the above premises. Many important economists think that competition laws represent an unwarranted and harmful intervention of the State in the markets. Some believe that the State should own important industries (J.K. Galbraith), others - that industries should be encouraged to grow because only size guarantees survival, lower prices and innovation (Ellis Hawley). Yet others support the cause of laissez faire (Marc Eisner).

These three antithetical approaches are, by no means, new. One leads to socialism and communism, the other to corporatism and monopolies and the third to jungle-ization of the market (what the Europeans derisively call: the Anglo-Saxon model).

It is politically incorrect to regard labor as a mere commodity whose price should be determined exclusively by market signals and market forces. This view has gone out of fashion more than 100 years ago with the emergence of powerful labor organizations and influential left-wing scholars and thinkers.

But globalization changes all that. Less regulated worldwide markets in skilled and unskilled (mainly migrant) workers rendered labor a tradable service. As the labor movement crumbled and membership in trade unions with restrictive practices dwindled, wages are increasingly determined by direct negotiations between individual employees and their prospective or actual employers.

*B. **HISTORICAL AND LEGAL CONSIDERATIONS***

Why does the State involve itself in the machinations of the free market? Because often markets fail or are unable or unwilling to provide goods, services, or competition. The purpose of competition laws is to secure a competitive marketplace and thus protect the consumer from unfair, anti-competitive practices. The latter tend to increase prices and reduce the availability and quality of goods and services offered to the consumer.

Such state intervention is usually done by establishing a governmental Authority with full powers to regulate the markets and ensure their fairness and accessibility to new entrants. Lately, international collaboration between such authorities yielded a measure of harmonization and coordinated action (especially in cases of trusts which are the results of mergers and acquisitions).

There is no reason why not to apply this model to labor. Consumers (employers) in the market for labor deserve as much protection as consumers of traditional goods and commodities. Anti-competitive practices in the employment marketplace should be rooted out vigorously.

Competition policy is the antithesis of industrial policy. The former wishes to ensure the conditions and the rules of the game - the latter to recruit the players, train them and win the game. The origin of the former is in the USA during the 19^{th} century and from there it spread to (really was imposed on) Germany and Japan, the defeated countries in the 2^{nd} World War. The European Community (EC) incorporated a competition policy in articles 85 and 86 of the Rome Convention and in Regulation 17 of the Council of Ministers, 1962.

Still, the two most important economic blocks of our time have different goals in mind when implementing competition policies. The USA is more interested in economic (and econometric) results while the EU emphasizes social, regional development and political consequences. The EU also protects the rights of small businesses more vigorously and, to some extent, sacrifices intellectual property rights on the altar of fairness and the free movement of goods and services.

Put differently: the USA protects the producers and the EU shields the consumer. The USA is interested in the maximization of output even at a heightened social cost - the EU is interested in the creation of a just society, a mutually supportive community, even if the economic results are less than optimal.

As competition laws go global and are harmonized across national boundaries, they should be applied rigorously to global labor markets as well.

For example: the 29 (well-off) members of the Organization for Economic Cooperation and Development (OECD) formulated rules governing the harmonization and coordination of international antitrust/competition regulation among its member nations ("The Revised Recommendation of the OECD Council Concerning Cooperation between Member Countries on Restrictive Business Practices Affecting International Trade," OECD Doc. No.

C(86)44 (Final) (June 5, 1986), also in 25 International Legal Materials 1629 (1986).

A revised version was reissued. According to it, ***" …Enterprises should refrain from abuses of a dominant market position; permit purchasers, distributors, and suppliers to freely conduct their businesses; refrain from cartels or restrictive agreements; and consult and cooperate with competent authorities of interested countries".***

An agency in one of the member countries tackling an antitrust case, usually notifies another member country whenever an antitrust enforcement action may affect important interests of that country or its nationals (see: OECD Recommendations on Predatory Pricing, 1989).

The United States has bilateral antitrust agreements with Australia, Canada, and Germany, which was followed by a bilateral agreement with the EU in 1991. These provide for coordinated antitrust investigations and prosecutions. The United States has thus reduced the legal and political obstacles which faced its extraterritorial prosecutions and enforcement.

The agreements require one party to notify the other of imminent antitrust actions, to share relevant information, and to consult on potential policy changes. The EU-U.S. Agreement contains a "comity" principle under which each side promises to take into consideration the other's interests when considering antitrust prosecutions. A similar principle is at the basis of Chapter 15 of the North American Free Trade Agreement (NAFTA) - cooperation on antitrust matters.

The United Nations Conference on Restrictive Business Practices adopted a code of conduct in 1979/1980 that was later integrated as a U.N. General Assembly Resolution [U.N. Doc. TD/RBP/10 (1980)]: "The Set of Multilaterally Agreed Equitable Principles and Rules".

According to its provisions, "independent enterprises should refrain from certain practices when they would limit access to markets or otherwise unduly restrain competition".

The following business practices are prohibited. They are fully applicable - and should be unreservedly applied - to trade and labor unions. Anti-competitive practices are rampant in organized labor. The aim is to grant access to to a "cornered market" and its commodity (labor) only to those consumers (employers) who give in and pay a non-equilibrium, unnaturally high, price (wage). Competitors (non-organized and migrant labor) are discouraged, heckled, intimidated, and assaulted, sometimes physically.

All these are common unionized labor devices - all illegal under current competition laws:

1. Agreements to fix prices (including export and import prices);
2. Collusive tendering;
3. Market or customer allocation (division) arrangements;
4. Allocation of sales or production by quota;
5. Collective action to enforce arrangements, e.g., by concerted refusals to deal (industrial action, strikes);
6. Concerted refusal to sell to potential importers; and
7. Collective denial of access to an arrangement, or association, where such access is crucial to competition and such denial might hamper it. In addition, businesses are forbidden to engage in the abuse of a dominant position in the market by limiting access to it or by otherwise restraining competition by:
    a. Predatory behavior towards competitors;
    b. Discriminatory pricing or terms or conditions in the supply or purchase of goods or services;
    c. Mergers, takeovers, joint ventures, or other acquisitions of control;
    d. Fixing prices for exported goods or resold imported goods;
    e. Import restrictions on legitimately-marked trademarked goods;
    f. Unjustifiably - whether partially or completely - refusing to deal on an enterprise's customary commercial terms, making the supply of goods or services dependent on restrictions on the distribution or manufacturer of other goods, imposing restrictions on the resale or exportation of the same or other goods, and purchase "tie-ins".

*C. **ANTI - COMPETITIVE STRATEGIES***

(Based on Porter's book - "Competitive Strategy")

Anti-competitive practices influence the economy by discouraging foreign investors, encouraging inefficiencies and mismanagement, sustaining artificially high prices, misallocating scarce resources, increasing unemployment, fostering corrupt and criminal practices and, in general, preventing the growth that the country or industry could have attained otherwise.

Strategies for Monopolization

Exclude competitors from distribution channels.

This is common practice in many countries. Open threats are made by the manufacturers of popular products: "If you distribute my competitor's products - you cannot distribute mine. So, choose." Naturally, retail outlets, dealers and distributors always prefer the popular product to the new, competing, one. This practice not only blocks competition - but also innovation, trade and choice or variety.

Organized labor acts in the same way. The threaten the firm: "If you hire these migrants or non-unionized labor - we will deny you our work (we will strike)." They thus exclude the competition and create an artificial pricing environment with distorted market signals.

Buy up competitors and potential competitors.

There is nothing wrong with that. Under certain circumstances, this is even desirable. Consider the Banking System: it is always better to have fewer banks with larger capital than many small banks with inadequate capital inadequacy.

So, consolidation is sometimes welcome, especially where scale enhances viability and affords a higher degree of consumer protection. The line is thin. One should apply both quantitative and qualitative criteria. One way to measure the desirability of such mergers and acquisitions (M&A) is the level of market concentration following the M&A. Is a new monopoly created? Will the new entity be able to set prices unperturbed? stamp out its other competitors? If so, it is not desirable and should be prevented.

Every merger in the USA must be approved by the antitrust authorities. When multinationals merge, they must get the approval of all the competition authorities in all the territories in which they operate. The purchase of "Intuit" by "Microsoft" was prevented by the antitrust department (the "Trust-busters"). A host of airlines was conducting a drawn out battle with competition authorities in the EU, UK and the USA lately.

Probably the only industry exempt from these reasonable and beneficial restrictions is unionized labor. In its heyday, a handful of unions represented all of labor in any given national territory. To this very day, there typically is no more than one labor union per industry - a monopoly on labor in that sector.

Use predatory [below-cost] pricing (also known as dumping) to eliminate competitors or use price retaliation to "discipline" competitors.

This tactic is mostly used by manufacturers in developing or emerging economies and in Japan, China, and Southeast Asia. It consists of "pricing the competition out of the market".

The predator sells his products at a price which is lower even than the costs of production. The result is that he swamps the market, driving out all other competitors. The last one standing, he raises his prices back to normal and, often, above normal. The dumper loses money in the dumping operation and compensates for these losses by charging inflated prices after having the competition eliminated.

Through dumping or even unreasonable and excessive discounting. This could be achieved not only through the price itself. An exceedingly long credit term offered to a distributor or to a buyer is a way of reducing the price. The same applies to sales, promotions, vouchers, gifts. They are all ways to reduce the effective price. The customer calculates the money value of these benefits and deducts them from the price.

This is one anti-competitive practice that is rarely by organized labor.

Raise scale-economy barriers.

Take unfair advantage of size and the resulting scale economies to force conditions upon the competition or upon the distribution channels. In many countries unionized labor lobbies for legislation which fits its purposes and excludes competitors (such as migrant workers, non-unionized labor, or overseas labor in offshoring and outsourcing deals).

Increase "market power (share) and hence profit potential".

This is a classic organized labor stratagem. From its inception, trade unionism was missionary and by means fair and foul constantly recruited new members to increase its market power and prowess. It then leveraged its membership to extract and extort "profits and premium" (excess wages) from employees.

Study the industry's "potential" structure and ways it can be made less competitive.

Even contemplating crime or merely planning it are prohibited. Many industries have "think tanks" and experts whose sole function is to show their firm the ways to minimize competition and to increase market share. Admittedly, the line is very thin: when does a Marketing Plan become criminal?

But, with the exception of the robber barons of the 19th century, no industry ever came close to the deliberate, publicly acknowledged, and well-organized attempt by unionized labor to restructure the labor market to eliminate competition altogether. Everything from propaganda "by word and deed" to intimidation and violence was used.

Arrange for a "rise in entry barriers to block later entrants" and "inflict losses on the entrant".

This could be done by imposing bureaucratic obstacles (of licencing, permits and taxation), scale hindrances (prevent the distribution of small quantities or render it non-profitable), by maintaining "old boy networks" which share political clout and research and development, or by using intellectual property rights to block new entrants. There are other methods too numerous to recount. An effective law should block any action which prevents new entry to a market.

Again, organized labor is the greatest culprit of all. In many industries, it is impossible, on pain of strike, to employ or to be employed without belonging to a union. The members of most unions must pay member dues, possess strict professional qualifications, work according to rigid regulations and methods, adhere to a division of labor with members of other unions, and refuse employment in certain circumstances - all patently anti-competitive practices.

Buy up firms in other industries "as a base from which to change industry structures" there.

This is a way of securing exclusive sources of supply of raw materials, services and complementing products. If a company owns its suppliers and they are single or almost single sources of supply - in effect it has monopolized the market. If a software company owns another software company with a product which can be incorporated in its own products - and the two have substantial market shares in their markets - then their dominant positions reinforce each other's.

Federations and confederations of labor unions are, in effect, cartels, or, at best, oligopolies. By co-opting suppliers of alternative labor, organized labor has been striving consistently towards the position of a monopoly - but without the cumbersome attendant regulation.

"Find ways to encourage particular competitors out of the industry".

If you can't intimidate your competitors you might wish to "make them an offer that they cannot refuse". One way is to buy them, to bribe their key personnel, to offer tempting opportunities in other markets, to swap markets (I will give you my market share in a market which I do not really care for and you will give me your market share in a market in which we are competitors). Other ways are to give the competitors assets, distribution channels and so on on condition that they collude in a cartel.

These are daily occurrences in organized labor. Specific labor unions regularly trade among themselves "markets", workplaces, and groups of members in order to increase their market share and enhance their leverage on the consumers of their "commodity" (the employers).

"Send signals to encourage competition to exit" the industry.

Such signals could be threats, promises, policy measures, attacks on the integrity and quality of the competitor, announcement that the company has set a certain market share as its goal (and will, therefore, not tolerate anyone trying to prevent it from attaining this market share) and any action which directly or indirectly intimidates or convinces competitors to leave the industry. Such an action need not be positive - it can be negative, need not be done by the company - can be done by its political proxies, need not be planned - could be accidental. The results are what matters.

Organized labor regards migrant workers, non-unionized labor, and overseas labor in offshoring and outsourcing deals as the "competition". Trade unions in specific industries and workplaces do their best to intimidate newcomers, exclude them from the shop floor, or "convince" them to exit the market.

How to 'Intimidate' Competitors

Raise "mobility" barriers to keep competitors in the least-profitable segments of the industry.

This is a tactic which preserves the appearance of competition while subverting it. Certain segments, usually less profitable or too small to be of interest, or with dim growth prospects, or which are likely to be opened to fierce domestic and foreign competition are left to new entrants. The more lucrative parts of the markets are zealously guarded by the company. Through legislation, policy measures, withholding of technology and know-how - the firm prevents its competitors from crossing the river into its protected turf.

Again, long a labor strategy. Organized labor has neglected many service industries to concentrate on its core competence - manufacturing. But it has zealously guarded this bastion of traditional unionism and consistently hindered innovation and competition.

Let little firms "develop" an industry and then come in and take it over.

This is precisely what Netscape is saying that Microsoft had done to it. Netscape developed the now lucrative browser application market. Microsoft proved wrong to have discarded the Internet as a fad. As the Internet boomed, Microsoft reversed its position and came up with its own (then, technologically inferior) browser (the Internet Explorer).

It offered it free (sound suspiciously like dumping) bundled with its operating system, "Windows". Inevitably it captured more than 60% of the market, vanquishing Netscape in the [process. It is the view of the antitrust authorities in the USA that Microsoft utilized its dominant position in one market (that of Operating Systems) to annihilate a competitor in another market (that of browsers).

Labor unions often collude in a similar fashion. They assimilate independent or workplace-specific unions and labor organizations and they leverage their monopolistic position in one market to subvert competition in other markets.

Organized labor has been known to use these anti-competitive tactics as well:

Engage in "promotional warfare" by "attacking market shares of others".

This is when the gist of a marketing, lobbying, or advertising campaign is to capture the market share of the competition (for instance, migrant workers, or workers overseas). Direct attack is then made on the competition just in order to abolish it. To sell more in order to maximize profits is allowed and meritorious - to sell more in order to eliminate the competition is wrong and should be disallowed.

Establish a "pattern" of severe retaliation against challengers to "communicate commitment" to resist efforts to win market share.

Again, this retaliation can take a myriad of forms: malicious advertising, a media campaign, adverse legislation, blocking distribution channels, staging a hostile bid in the stock exchange just in order to disrupt the proper and orderly management of the competitor, or more classical forms of industrial action such as the strike and the boycott. Anything which derails the competitor or consumer (employer) whenever he makes headway, gains a larger market share, launches a new product, reduces the prices he pays for labor - can be construed as a "pattern of retaliation".

Maintain excess capacity to be used for "fighting" purposes to discipline ambitious rivals.

Such excess capacity could belong to the offending firm or - through cartel or other arrangements - to a group of offending firms. A labor union, for instance, can selectively aid one firm by being lenient and forthcoming even as it destroys another firm by rigidly insisting on unacceptable and ruinous demands.

Publicize one's "commitment to resist entry" into the market.

Publicize the fact that one has a "monitoring system" to detect any aggressive acts of competitors.

Announce in advance "market share targets" to intimidate competitors into yielding their market share.

How to Proliferate Brand Names

Contract with customers (employers) to "meet or match all price cuts (offered by the competition)" thus denying rivals any hope of growth through price competition (Rarely used by organized labor).

Secure a big enough market share to "corner" the "learning curve," thus denying rivals an opportunity to become efficient.

Efficiency is gained by an increase in market share. Such an increase leads to new demands imposed by the market, to modernization, innovation, the introduction of new management techniques (example: Just In Time inventory management), joint ventures, training of personnel, technology transfers, development of proprietary intellectual property and so on. Deprived of a growing market share - the competitor does not feel the need to learn and to better itself. In due time, it dwindles and dies. This tactic is particularly used against overseas contractors which provide cheap labor in offshoring or outsourcing deals.

Acquire a wall of "defensive" laws, regulations, court precedents, and political support to deny competitors unfettered access to the market.

"Harvest" market position in a no-growth industry by raising prices, lowering quality, and stopping all investment and in it. Trade unions in smokestack industries often behave this way.

Create or encourage capital scarcity.

By colluding with sources of financing (e.g., regional, national, or investment banks), by absorbing any capital offered by the State, by the capital markets, through the banks, by spreading malicious news which serve to lower the credit-worthiness of the competition, by legislating special tax and financing loopholes and so on.

Introduce high advertising-intensity.

This is very difficult to measure. There are no objective criteria which do not go against the grain of the fundamental right to freedom of expression. However, truth in advertising should be strictly observed. Practices such as dragging the competition (e.g., an independent labor union, migrant workers, overseas contract workers) through the mud or derogatorily referring to its products or services in advertising campaigns should be banned and the ban should be enforced.

Proliferate "brand names" to make it too expensive for small firms to grow.

By creating and maintaining a host of absolutely unnecessary brand names (e.g., unions), the competition's brand names are crowded out. Again, this cannot be legislated against. A firm has the right to create and maintain as many brand names as it sees fit. In the long term, the market exacts a price and thus punishes such a union because, ultimately, its own brand name suffers from the proliferation.

Get a "corner" (control, manipulate and regulate) on raw materials, government licenses, contracts, subsidies, and patents (and, of course, prevent the competition from having access to them).

Build up "political capital" with government bodies; overseas, get "protection" from "the host government".

'Vertical' Barriers

Practice a "preemptive strategy" by capturing all capacity expansion in the industry (simply unionizing in all the companies that own or develop it).

This serves to "deny competitors enough residual demand". Residual demand, as we previously explained, causes firms to be efficient. Once efficient, they develop enough power to "credibly retaliate" and thereby "enforce an orderly expansion process" to prevent overcapacity

Create "switching" costs.

Through legislation, bureaucracy, control of the media, cornering advertising space in the media, controlling infrastructure, owning intellectual property, owning, controlling or intimidating distribution channels and suppliers and so on.

Impose vertical "price squeezes".

By owning, controlling, colluding with, or intimidating suppliers and distributors of labor, marketing channels and wholesale and retail outlets into not collaborating with the competition.

Practice vertical integration (buying suppliers and distribution and marketing channels of labor).

This has the following effects:

The union gains a access into marketing and business information in the industry. It defends itself against a supplier's pricing power.

It defends itself against foreclosure, bankruptcy and restructuring or reorganization. Owning your potential competitors (for instance, private employment and placement agencies) means that the supplies do not cease even when payment is not affected, for instance.

The union thus protects proprietary information from competitors - otherwise it might be forced to give outsiders access to its records and intellectual property.

It raises entry and mobility barriers against competitors. This is why the State should legislate and act against any purchase, or other types of control of suppliers and marketing channels which service competitors and thus enhance competition.

It serves to "prove that a threat of full integration is credible" and thus intimidate competitors.

Finally, it gets "detailed cost information" in an adjacent industry (but doesn't integrate it into a "highly competitive industry").

"Capture distribution outlets" by vertical integration to "increase barriers".

How to 'Consolidate' the Industry - The Unionized Labor Way

Send "signals" to threaten, bluff, preempt, or collude with competitors.

Use a "fighting brand" of laborers (low-priced workers used only for price-cutting).

Use "cross parry" (retaliate in another part of a competitor's market).

Harass competitors with antitrust, labor-related, and anti-discrimination lawsuits and other litigious techniques.

Use "brute force" to attack competitors or use "focal points" of pressure to collude with competitors on price.

"Load up customers (employers)" at cut-rate prices to "deny new entrants a base" and force them to "withdraw" from market.

Practice "buyer selection," focusing on those that are the most "vulnerable" (easiest to overcharge) and discriminating against and for certain types of consumers (employers).

"Consolidate" the industry so as to "overcome industry fragmentation".

This last argument is highly successful with US federal courts in the last decade. There is an intuitive feeling that few players make for a better market and that a consolidated industry is bound to be more efficient, better able to compete and to survive and, ultimately, better positioned to lower prices, to conduct costly research and development and to increase quality. In the words of Porter: ***"(The) pay-off to consolidating a fragmented industry can be high because... small and weak competitors offer little threat of retaliation."***

Time one's own capacity additions; never sell old capacity "to anyone who will use it in the same industry" and buy out "and retire competitors' capacity".

Also Read

The Labour Divide - I. Employment and Unemployment

The Labour Divide - II. Migration and Brain Drain

The Labour Divide - III. Entrepreneurship and Workaholism

The Labour Divide - IV. The Unions after Communism

The Labour Divide - V. Employee Benefits and Ownership

The Labour Divide - VI. The Future of Work

Immigrants and the Fallacy of Labour Scarcity

Battling Society's Cancer: Unemployment

Employee and Management Owned Firms

By: Sam Vaknin, Ph.D.

Margaret Thatcher started a world trend during her tenure as Prime Minister is Downing Street. It is called: Privatization. It consisted of the transfer of control of a state-owned enterprise to the Private Sector. This was done by selling the shares of the company. At times, the control itself was maintained by the state - but the economic benefits emanating from the ownership of shares was partly sold to privates. Such economic benefits are comprised of the dividend yield of the shares plus the appreciation in their value (due to the involvement of the private sector) known as capital gains.

But the privatization process was not entirely homogeneous, uniform, transparent, or, for that matter, fair.

The stock of some of the enterprises was sold to an individual, or group of individuals, by a direct, negotiated sale. A "controlling stake" (nucleus) was thus sold, ostensibly yielding to the state a premium paid by the private investors for the control of the sold firm.

This method of privatization was criticized as "crony capitalism". For some reason, a select group of businessmen, all cronies of the ruling political elite, seemed to benefit the most. They bought the controlling stakes at unrealistically low prices, said the critics. To support their thesis, they pointed to the huge disparity between the price at which the "cronies" bought the shares - and the price at which they, later, sold it to the public through the stock exchange. The "cronies" cried foul: the difference in the prices was precisely because of privatization, better management and financial control. Maybe. But the recurrence of the same names in every major privatization deal still looked suspiciously odd.

Then there was the second version: selling the shares of the privatized firms directly to the public. This was done using either of two methods:

1. An offering of the shares in the stock exchange (a cash method), or
2. The distribution of vouchers universally, to all the adult citizens of the country, so that they could all share the wealth accumulated by the state in an equitable manner. The vouchers are convertible to baskets of shares in a prescribed list of state enterprises (a nonchash method).

But a smaller group of (smaller) countries selected a whole different way of privatizing. They chose to TRANSFORM the state-owned firm instead of subjecting them to outright privatization.

Transformation - the venue adopted by Macedonia - is the transfer of the control of a firm and / or the economic benefits accruing to its shareholders to groups which were previously - or still are - connected to the firm.

In this single respect, transformation constitutes a major departure - not to say deviation - from classical privatization.

Ownership of the transformed firm can revert to either of the following groups, or to a combination thereof:

1. The employees of the firm, through a process called Employee BuyOut (EBO).
2. The management of the firm, in the form of a Management BuyOut or Buy In (MBO / MBI).
3. A select group from within the firm. Such a group uses the assets - current and future - of the firm as collaterals, thus enabling them to get the credits necessary to purchase the shares of the firm. This is called a Leveraged BuyOut, because the assets of the firm itself are leveraged in order to purchase it (LBO).
4. Finally, the creditors of the firm can team up and agree to convert the firm's debts to them into equity in the firm, in a Debt to Equity Swap (DES).

Sometimes, the state continues to maintain an interest in privatized - as well as in transformed - firms. This is especially true for natural monopolies, utilities, infrastructure and defence industries. All the above are considered to be strategic matters of national interest. Some countries - Russia and Israel, for ones - continue to own a "Golden Share". This highly specific type of security allows the state to exercise decision making powers, veto powers, or, at least, control over business matters that it considers vital to its security, financial viability, or even to its traditions. Israel's golden share in the national air carrier, EI AI, allows it to prevent flights in and out during the religiously holy day of Sabbath!

Until very recently the common (economic) wisdom in the West had it that Transformation was - in the best case - a sterile, make - believe exercise. The worst case included cronyism and corruption. One thing was to privatize and another was to privateer. But there were some grounds for some solid criticisms as well:

(1) The main ideological thrust behind privatization was the revitalization of stale and degenerated state firm. Badly managed, wrongly financially controlled, applying an incoherent admixture of business and non business (political, social, geopolitical) considerations to their decision making process - state firm were considered as anachronistic as dinosaurs. Many preferred to see them as extinct as those ancient reptiles. An injection of private initiative acquired the status of ideological panacea to the corporate malaise of the public sector.

But this is precisely what was missing in the Transformation version. It offered nothing new: no new management, no new ideas (were likely to come from the same old team) and, above all and as a direct result of this preference of old over new - no new capital.

To this, the supporters of Transformation answer that the one thing which is new - personal capitalistic incentives - far outweighs all the old elements. Incentive driven initiative is likely to bring in its wake and to herald the transformation - in the most complete and realistic sense - of the state firm.

Change, renovation and innovation - say the latter - are immediate by products of personal profit motivation, the most powerful known to Mankind.

(2) The process of Transformation blurred the distinction between labour, management and ownership. Employees acted as potential managers and as co-owners in the newly transformed companies. The very concept of hierarchy, clear chains of authority (going down) and of responsibility (going up) - was violated. A ship must have one captain lest it sinks. It is not in vain that the management function was separated from the ownership function. Employees, managers and owners, all have differing views and differences of opinion concerning every possible aspect of corporate governance and the proper conduct of business.

Employees want to maximize employment and the economic benefits attached to it - managers and shareholders wish to minimize this parameter and its effects on the corporation. Managers wish to maximize their compensation - employees and owners wish to minimize or moderate it, each group for its own, disparate reasons.

This break in the "chain of command", this diffusive, fog like property of the newly transformed entity lead to dysfunction, financial mismanagement, lack of clarity of vision and of day to day operations, labour unrest (when the unrealistic expectations of the workforce are not met).

So, at the beginning, during the 1980s, the West preferred to privatize state owned firms - rather than to transform them. A fast accumulating body of economic research demonstrated unambiguously that privatization did miracles to the privatized firms. In certain cases, productivity shot up 6 times. Between 60 to 80 percent of GNPs in the West are private now and a vigorous trend to privatize what remains of the public sector still persists.

But the same studies revealed a less pleasant phenomenon: only a select group of businessmen benefited from privatization. The paranoid allusions of the critics of this process were completely substantiated. Something was very corrupted in implementation of the seemingly wholesome idea of privatization. The public - as a whole - economically suffered.

This led to the emergence of a new social consciousness. It was provoked by the unacceptable social costs of capitalism: more people under the poverty line, homelessness, a radicalization in the inequity of the distribution of income among different strata of society. But this trend was enhanced by the apparent corruption of the privatization process.

This new social consciousness converged with yet another all important and all pervasive trend: the formation of small businesses by small time entrepreneurs. The latter functioned both as owners and as employees in their firms. There were 16 million such owners-workers in the USA alone (1995 figures). About 99% of the 22 million registered businesses in the USA were small businesses. No economic planner or politician could ignore these figures. Employee owned firms became the majority in the service and advanced technology sectors of the economy - the fastest growing, most lucrative sectors.

In its own way, as a result of these two trends, the West was moving back to transformation and away from privatization, away from separation of ownership and labour, away from differentiation between capital and workforce. This is a major revolution.

The OECD (the organization of the richer countries in the world) established an institute which follows trends in the poorer parts of the world, politely called "Economies in Transition". This is the CCET.

According to the CCET's latest report, privatization continues in an uneven pace throughout the former Eastern Bloc. Some countries nearly completed it. Others have claimed to have completed it - but haven't even started it in reality. Some countries - Macedonia amongst them - have sold the shares of state owned firms (=businesses with social capital) to managers and workers - but the managers and workers have largely not paid for these shares yet. It is by no means certain that they will. If the managers and workers default on their obligations to pay the state - the ownership of the company will revert back to the state. This is paper privatization, a transformation of expectations. No one can seriously claim that the transformation is completed before the new owners of the firms respect their financial obligations to the state.

In all, privatization the world over, proceeded more rapidly with small firms. Selling the bigger firms was much more difficult. Most of this behemoths were composed of numerous profit centres and loss making business activities. A solidarity of accounts and guarantees existed between the various operations. The more profitable parts of a company supported and subsidized the less competent, the losing parts. This was not very attractive to investors.

The official figures are heart warming. In parentheses - the percentage of firms privatized:

Albania , Czech Republic , Estonia , Hungary , Lithuania, Poland and Slovakia all privatized 90% of their small firms. In Russia and Latvia, the figure is 70%.

The picture is more clouded with the larger firms:

Czech Republic (81%), Hungary, Estonia (75%), Lithuania (57%), Russia (55%), Latvia and Slovakia (46%), Mongolia (41%), Poland (32%), Moldavia (27%), Romania (13%), Belarus and Bulgaria (11%), Georgia (2%).

But what hides behind the figures?

The Czech Republic is infamous for its cronyism and for the massive transfer of wealth to the hands of a few people close to government circles.

On the face of it, the situation in Poland looks a bit better: a universal voucher system was instituted. People were allowed to deposit their shares with 14 management funds. These funds also bought some of the shares, making them part owners. They control now 500 enterprises, which make up 5% of the country's GNP.

Some of these funds are 50% foreign owned, so their management and moral standards are Western. But, even there, rumours abound and not only rumours.

So, what is better - privatization or transformation?

Maybe the lesson is that we are all human. There is no method immune to human fallacies and desires, to corruption or to allegations of it.

Transformation tends to benefit more people - so, maybe it looks more just. But long term it is inefficient and leads to the ruining of the firms involved and to permanent damage both to the economy and to the workers-owners. Is it better to be the owner of a bankrupt firm - or to work in a functioning firm, where you have no ownership stake? This is not an ideological or a philosophical question. Ask the employees of the Pelagonija Construction Group.

Privatization, on the other hand, is much more open to manipulation - but at least it secures the continued existence of the firms and the continuous employment of the workers.

Sometimes, in economic reality, we have to give up justice (or the appearance of it) - in order to secure the very survival of the workers involved.

I, personally, prefer privatization over transformation.

Making your Workers Your Partners

By: Sam Vaknin, Ph.D.

There is an inherent conflict between owners and managers of companies. The former want, for instance, to minimize costs - the latter to draw huge salaries as long as they are in power.

In publicly traded companies, the former wish to maximize the value of the stocks (short term), the latter might have a longer term view of things. In the USA, shareholders place emphasis on the appreciation of the stocks (the result of quarterly and annual profit figures). This leaves little room for technological innovation, investment in research and development and in infrastructure. The theory is that workers who also own stocks avoid these cancerous conflicts which, at times, bring companies to ruin and, in many cases, dilapidate them financially and technologically. Whether reality lives up to theory, is an altogether different question.

A stock option is the right to purchase (or sell - but this is not applicable in our case) a stock at a specified price (=strike price) on or before a given date. Stock options are either not traded (in the case of private firms) or traded in a stock exchange (in the case of public firms whose shares are also traded in a stock exchange).

Stock options have many uses: they are popular investments and speculative vehicles in many markets in the West, they are a way to hedge (to insure) stock positions (in the case of put options which allow you to sell your stocks at a pre-fixed price). With very minor investment and very little risk (one can lose only the money invested in buying the option) - huge profits can be realized.

Creative owners and shareholders began to use stock options to provide their workers with an incentive to work for the company and only for the company. Normally such perks were reserved to senior management, thought indispensable. Later, as companies realized that their main asset was their employees, all employees began to enjoy similar opportunities. Under an incentive stock option scheme, an employee is given by the company (as part of his compensation package) an option to purchase its shares at a certain price (at or below market price at the time that the option was granted) for a given number of years. Profits derived from such options now constitute the main part of the compensation of the top managers of the Fortune 500 in the USA and the habit is catching on even with more conservative Europe.

A Stock Option Plan is an organized program for employees of a corporation allowing them to buy its shares. Sometimes the employer gives the employees subsidized loans to enable them to invest in the shares or even matches their purchases: for every share bought by an employee, the employer awards him with another one, free of charge. In many companies, employees are offered the opportunity to buy the shares of the company at a discount (which translates to an immediate paper profit).

Dividends that the workers receive on the shares that they hold can be reinvested by them in additional shares of the firm (some firms do it for them automatically and without or with reduced brokerage commissions). Many companies have wage "set-aside" programs: employees regularly use a part of their wages to purchase the shares of the company at the market prices at the time of purchase. Another well known structure is the Employee Stock Ownership Plan (ESOP) whereby employees regularly accumulate shares and may ultimately assume control of the company.

Let us study in depth a few of these schemes:

It all began with Ronald Reagan. His administration passed in Congress the Economic Recovery Tax Act (ERTA - 1981) under which certain kinds of stock options ("qualifying options") were declared tax-free at the date that they were granted and at the date that they were exercised. Profits on shares sold after being held for at least two years from the date that they were granted or one year from the date that they were transferred to an employee were subjected to preferential (lower rate) capital gains tax. A new class of stock options was thus invented: the "Qualifying Stock Option". Such an option was legally regarded as a privilege granted to an employee of the company that allowed him to purchase, for a special price, shares of its capital stock (subject to conditions of the Internal Revenue - the American income tax - code). To qualify, the option plan must be approved by the shareholders, the options must not be transferable (i.e., cannot be sold in the stock exchange or privately - at least for a certain period of time).

Additional conditions: the exercise price must not be less than the market price of the shares at the time that the options were issued and that the employee who receives the stock options (the grantee) may not own stock representing more than 10% of the company's voting power unless the option price equals 110% of the market price and the option is not exercisable for more than five years following its grant. No income tax is payable by the employee either at the time of the grant or at the time that he converts the option to shares (which he can sell at the stock exchange at a profit) - the exercise period. If the market price falls below the option price, another option, with a lower exercise price can be issued. There is a 100,000 USD per employee limit on the value of the stock covered by options that can be exercised in any one calendar year.

This law - designed to encourage closer bondage between workers and their workplaces and to boost stock ownership - led to the creation of Employee Stock Ownership Plans (ESOPs). These are programs which encourage employees to purchase stock in their company. Employees may participate in the management of the company. In certain cases - for instance, when the company needs rescuing - they can even take control (without losing their rights). Employees may offer wage concessions or other work rules related concessions in return for ownership privileges - but only if the company is otherwise liable to close down ("marginal facility").

How much of its stock should a company offer to its workers and in which manner?

There are no rules (except that ownership and control need not be transferred). A few of the methods:

1. The company offers packages of different sizes, comprising shares and options and the employees bid for them in open tender.
2. The company sells its shares to the employees on an equal basis (all the members of the senior management, for instance, have the right to buy the same number of shares) - and the workers are then allowed to trade the shares between them.
3. The company could give one or more of the current shareholders the right to offer his shares to the employees or to a specific group of them.

The money generated by the conversion of the stock options (when an employee exercises his right and buys shares) usually goes to the company. The company sets aside in its books a number of shares sufficient to meet the demand which may be generated by the conversion of all outstanding stock options. If necessary, the company issues new shares to meet such a demand. Rarely, the stock options are converted into shares already held by other shareholders.

Also Read:

The Principal-Agent Conundrum

The Labour Divide - V. Employee Benefits and Ownership

The Agent-Principal Conundrum

By: Sam Vaknin, Ph.D.

Also published by United Press International (UPI)

In the catechism of capitalism, shares represent the part-ownership of an economic enterprise, usually a firm. The value of shares is determined by the replacement value of the assets of the firm, including intangibles such as goodwill. The price of the share is determined by transactions among arm's length buyers and sellers in an efficient and liquid market. The price reflects expectations regarding the future value of the firm and the stock's future stream of income - i.e., dividends.

Alas, none of these oft-recited dogmas bears any resemblance to reality. Shares rarely represent ownership. The float - the number of shares available to the public - is frequently marginal. Shareholders meet once a year to vent and disperse. Boards of directors are appointed by management - as are auditors. Shareholders are not represented in any decision making process - small or big.

The dismal truth is that shares reify the expectation to find future buyers at a higher price and thus incur capital gains. In the Ponzi scheme known as the stock exchange, this expectation is proportional to liquidity - new suckers - and volatility. Thus, the price of any given stock reflects merely the consensus as to how easy it would be to offload one's holdings and at what price.

Another myth has to do with the role of managers. They are supposed to generate higher returns to shareholders by increasing the value of the firm's assets and, therefore, of the firm. If they fail to do so, goes the moral tale, they are booted out mercilessly. This is one manifestation of the "Principal-Agent Problem". It is defined thus by the Oxford Dictionary of Economics:

"The problem of how a person A can motivate person B to act for A's benefit rather than following (his) self-interest."

The obvious answer is that A can never motivate B not to follow B's self-interest - never mind what the incentives are. That economists pretend otherwise - in "optimal contracting theory" - just serves to demonstrate how divorced economics is from human psychology and, thus, from reality.

Managers will always rob blind the companies they run. They will always manipulate boards to collude in their shenanigans. They will always bribe auditors to bend the rules. In other words, they will always act in their self-interest. In their defense, they can say that the damage from such actions to each shareholder is minuscule while the benefits to the manager are enormous. In other words, this is the rational, self-interested, thing to do.

But why do shareholders cooperate with such corporate brigandage? In an important Chicago Law Review article whose preprint was posted to the Web a few weeks ago - titled "Managerial Power and Rent Extraction in the Design of Executive Compensation" - the authors demonstrate how the typical stock option granted to managers as part of their remuneration rewards mediocrity rather than encourages excellence.

But everything falls into place if we realize that shareholders and managers are allied against the firm - not pitted against each other. The paramount interest of both shareholders and managers is to increase the value of the stock - regardless of the true value of the firm. Both are concerned with the performance of the share - rather than the performance of the firm. Both are preoccupied with boosting the share's price - rather than the company's business.

Hence the inflationary executive pay packets. Shareholders hire stock manipulators - euphemistically known as "managers" - to generate expectations regarding the future prices of their shares. These snake oil salesmen and snake charmers - the corporate executives - are allowed by shareholders to loot the company providing they generate consistent capital gains to their masters by provoking persistent interest and excitement around the business. Shareholders, in other words, do not behave as owners of the firm - they behave as free-riders.

The Principal-Agent Problem arises in other social interactions and is equally misunderstood there. Consider taxpayers and their government. Contrary to conservative lore, the former want the government to tax them providing they share in the spoils. They tolerate corruption in high places, cronyism, nepotism, inaptitude and worse - on condition that the government and the legislature redistribute the wealth they confiscate. Such redistribution often comes in the form of pork barrel projects and benefits to the middle-class.

This is why the tax burden and the government's share of GDP have been soaring inexorably with the consent of the citizenry. People adore government spending precisely because it is inefficient and distorts the proper allocation of economic resources. The vast majority of people are rent-seekers. Witness the mass demonstrations that erupt whenever governments try to slash expenditures, privatize, and eliminate their gaping deficits. This is one reason the IMF with its austerity measures is universally unpopular.

Employers and employees, producers and consumers - these are all instances of the Principal-Agent Problem. Economists would do well to discard their models and go back to basics. They could start by asking:

Why do shareholders acquiesce with executive malfeasance as long as share prices are rising?

Why do citizens protest against a smaller government - even though it means lower taxes?

Could it mean that the interests of shareholders and managers are identical? Does it imply that people prefer tax-and-spend governments and pork barrel politics to the Thatcherite alternative?

Nothing happens by accident or by coercion. Shareholders aided and abetted the current crop of corporate executives enthusiastically. They knew well what was happening. They may not have been aware of the exact nature and extent of the rot - but they witnessed approvingly the public relations antics, insider trading, stock option resetting , unwinding, and unloading, share price manipulation, opaque transactions, and outlandish pay packages. Investors remained mum throughout the corruption of corporate America. It is time for the hangover.

Battling Society's Cancer: Unemployment

By: Sam Vaknin, Ph.D.

Click HERE to download

Plan to Reduce Unemployment in Macedonia 2007 (Submitted to Zoran Stavreski, Vice-Premier, April 2007)

The official figures are staggering: 35% of the workforce - about 280,000 people - are unemployed and looking for a job. Each 1.43 employee support 1 unemployed person. In the USA the figure is 3.3 to 4 employees supporting all the unemployed AND all the pensioners!

The truth is less ominous. Many employed people in Macedonia go unreported. Their employers prefer not to report them as employed in order to avoid paying social benefits and retirement benefits to the state. This greatly distorts the official figures - yet, it would be safe to assume that the unemployment rate in Macedonia is close to 20%.

Unemployment has only bad aspects. A certain level of unemployment is considered to be healthy. People move between workplaces - this is called labour mobility or friction unemployment. People desert old professions for new ones, training themselves to occupy higher paid, higher education positions. This kind of healthy unemployment is called "friction unemployment". A level of 3% to 6% is considered to be friction unemployment in the West (depending in which country).

But the kind of unemployment that is prevalent in Macedonia is not of this kind. It is permanent in the sense that the same people are unemployed continuously for more than a year. It is habit - forming: people lose their self dignity, they become dependent on outside assistance, they are afraid to face reality. Such unemployment has grave psychological consequences. People change under its influence to such an extent that they no longer qualify as workers. This affects the situation inside families. People who used to provide for their families are cast aside as no goods, losers with no prospects for the future. This deeply and adversely affects the very fabric of society's basic unit: the family.

But unemployment also has a great macroeconomic impact. The State doles out millions of DM each month to pay unemployment benefits. Multiply 60-100 DM per month per 283,000 job seekers - and you will face the frightening figures the Macedonian Minister of Finance is faced with every morning. Instead of putting this money to productive use - it is spent on keeping people idle at home on an allowance which is not even enough for bare subsistence. No one is happy: the Government - because its budget is unduly and unnecessarily inflated, the nation - because good money is thus spent instead of being invested and the unemployed - because they can hardly survive on what the State gives them.

Unemployment is not unique to economies in transition. Even much stronger economies - like France's and Spain's - suffer from it. Spain's real unemployment rate is similar to Macedonia's.

What are the long term, structural causes for unemployment?

There are more theories than there are unemployed people.

Some say that free trade encourages unemployment of unskilled and semi-skilled labour. Factories move overseas to places where labour is cheaper. Inexpensive imports of textiles and basic electronic wares compete with the local production and - usually - wound it badly.

Others blame labour market rigidities. If the psychology of employees and employers alike is that of "one big family" where no one is fired even in hard times and even if he is incompetent. If the laws and regulations of the state are in favour of a static workforce. If social benefits (annual vacation, sick pay, child support) increase the costs of employing - unemployment will be created. Employers will not hire additional staff in times of economic boom - because they will not be able to fire them in time of crisis. They will prefer to manufacture in places where labour costs are negotiable and low. Where trade unions have been abolished (Britain and the USA are the prime examples) - unemployment all but disappeared. Yet others emphasize the technological revolution (mainly in the fields of informatics). So many professions become obsolete at such a quick pace - and so many professions are revolutionized so often - that more jobs are lost than created.

But whatever the reasons are for unemployment - certain countries are battling this cancer of society in creative ways.

During the 1990's, Israel - a country with 4,500,000 million people and 20,700 square kilometres - absorbed an inflow of more than 600,000 immigrants (=15% of the population), mainly from the former USSR.

One could expect a dramatic increase in unemployment. If Macedonia were to absorb 300,000 additional immigrants (=15% of its population) tomorrow - its unemployment rate would have skyrocketed until the newcomers would have been absorbed by the marketplace.

Not only did Israel succeed in providing most of this deluge of immigrants with jobs - it also reduced the overall rate of unemployment among its old population! How did it succeed in doing the impossible?

Israel decided to give the unemployment benefits to the employer - not to the unemployed. Let us study an example:

The average unemployment benefit was 900 DM per person per month.

The average salary which an employer was supposed to pay this person if he were employed - would have been 1400 DM per month.

The Government came to the employer with the following suggestion:

Find employment for the unemployed person. Pay him a salary of 1400 DM. We will give you, the employer, 900 DM - instead of paying this amount directly to the unemployed person in the form of unemployment benefits.

So, everyone was happy:

The employer hired an experienced and well - educated worker for 500 DM (The difference between the 1400 DM that he paid him - and the 900 DM that he got back from the Government).

The unemployed person - because he finally found employment with a real chance to continue to be employed in the future if he really contributed to the business that he was employed in.

The Government was happy - because it did not increase its budgetary outlays and expenditures. Yet, at the same time it has increased the level of employment in the economy.

Another Israeli twist: the Government also paid part of the social benefits of the person who was previously unemployed in his first three years of employment. This saved the employer a lot of money and encouraged him to employ and to report the employed person to the authorities.

A whole different approach was experimented with in Great Britain.

All those unemployed in a specific geographic region were assembled into a "Community". The Community included a wide variety of professions:

carpenters and tailors, electricians and farm hands, gardeners and teachers. A computerized centre was set up. Each unemployed person registered with this centre, listing both his professional capabilities - and goods and services that he was interested in, but did not have the money to purchase.

A matching process then ensued: the tailor was looking for a teacher to give his children some private lessons (which he could not afford in his current financial straits). The teacher was looking for a tailor to saw a communion dress for her daughter. So, the computer matched them up:

The teacher tutored the tailor's children - in return for his services in sawing the dress for her daughter. Both of them were thus employed, recovering their sense of self-worth and dignity. Moreover, both of them were able to afford things which were badly needed by them but which they could afford under no other circumstances.

This is a return to primordial, pre-monetary, barter economy.

But who will determine how many private lessons provided by the teacher - are worth one dress sawed by the tailor?

A special tariff was published. It reflected the conditions which prevailed in the "real" marketplace in which real money changed hands.

To ease the "payment" process - special Community money was printed in lieu of the unemployment benefits which the government used to dole out to the members of the Community.

Now, each member of the Community received from the Government a monthly allowance in Community money (instead of real money) which he was able to use only with other members of the community, unemployed as he was.

This way, the purchasing power of the unemployed was used exclusively with the other unemployed, easing their overall situation. It also eased the Government's situation - because it did not have to print additional money to pay out unemployment benefits.

Admittedly, this was a fairly small and restricted experiment - but it was so successful that I believe that it warrants the attention of every nation facing high unemployment.

To Grow out of Unemployment

By: Sam Vaknin, Ph.D.

Click HERE to download

Plan to Reduce Unemployment in Macedonia 2007 (Submitted to Zoran Stavreski, Vice-Premier, April 2007)

There is a connection between economic growth and unemployment. There is a connection between growth and inflation. Therefore, commonsense (and financial theory) goes, there must be a connection between inflation and unemployment. A special measure of this connection is the Non Accelerating Inflation Rate of Unemployment (NAIRU). Supposedly, this is the rate of unemployment which still does not influence inflation. If unemployment goes below NAIRU, inflationary pressures begin to exert themselves.

This is closely linked to the other concepts, those of "structural", "frictional" and "conjectural or cyclical" unemployment types.

Some unemployment, the theory, goes is frictional. It is the inevitable result of a few processes:

1. ***Labour Mobility*** – People move from one job to another, either because they are fired or because they seek to improve their lot. In the intervening period between leaving an old workplace and finding another, they are unemployed.

2. ***Labour Force Expansion*** – Every year there are new entrants to the labour market. Generations mature and are ripe to be part of the labour force. Until they find their first job – these new participants are unemployed.

3. ***Seasonal and Part Time Employment*** – Some professions are seasonal by their nature (a hotel in a resort hotel, for instance). These workers join the ranks of the unemployed at certain times and desert them seasonally. Other workers prefer to work part time or in the "Grey" or "Black" economy. They go unreported or report themselves as unemployed, thus distorting the true picture of unemployment.

The frictional type of unemployment is a sign of economic health. It indicates a dynamic economy in fast development. It is a sign of labour mobility, of labour flexibility (part time solutions and flexitime) and of labour adaptability. This cannot be said about the second, more insidious, type, the structural unemployment. It is this kind of unemployment which really bothers governments and worries social planners. It has long term psychological and social effects and limits both economic growth and social cohesion. It is also the most difficult to battle.

Usually, it is the result of ingrained, long term and structural processes and changes in the economy and cannot be fought with artificial one-time measure (employment initiated by the state or fiscal stimulus intended to encourage employment). Among the factors which create it:

1. ***Technological change*** – new professions are created, old ones lose their lustre and, ultimately, their place in the economy. New professions, connected to new technologies, emerge. Some workers can be retrained but even this takes time (in which they might, technically, be defined as unemployed). Others cannot be retrained and they join the ranks of the long term unemployed, swelling structural unemployment.

2. ***Changes in Consumer Preferences*** – Fashions change, mass consumption patterns alter, emphases on certain goods and services shift. Today's hot item is tomorrow's dead one. Whole industries can and are effected by these tectonic shifts.

3. ***Globalization and Cross Border Labour Mobility*** – Labour mobility is intentionally encouraged, the world over. Economic unions and trade pacts include social or labour chapters. The most notable example is NAFTA which created hundreds of thousands of new jobs in Mexico and in the USA. As companies go multinational, as production processes become global, as services and goods are exported and imported within a rising tide of international trade, as international brands develop – the biggest restructuring of labour markets is taking place across the globe in rich and poor countries alike. Consider the clear erosion of the power of the trade unions or the cheap labour available in Central and Eastern Europe and in parts of Southeast Asia. These cause jobs (even skilled ones) to be reallocated across political borders.

4. ***Skill Acquisition Failure*** – People who failed to acquire the minimum education necessary to participate in today's workforce (secondary high school) are doomed to be permanently unemployed or part time employed. School dropouts form a large part of the structural unemployment in many countries. In countries which are in the process of shifting from one economic system to another, even those with the right formal education are made redundant and useless by the new

paradigm. Think about a professor of economy who studied and taught Marxist economy from the wrong textbooks – he is quite useless in a capitalist market economy and might find himself unemployed despite his high education.

The last, benign, type of unemployment is the cyclical one. It is the result of the natural business cycle (at least natural to capitalism) and of the ebb and tide of aggregate demand for workers which is a result of these cycles. This is considered to be an unavoidable side effect of market economy. The pain of the laid off workers can be ameliorated (through the introduction of unemployment benefits) but the solution comes from sorting out the cycle itself and not by attacking the unemployment issue in an isolated artificial manner.

The "Natural Rate of Employment" takes into account that frictional and structural employment must exist. What is left is really the full employment rate. This is highly misleading. First, economists are forced to rely on government data which, normally, tend to underestimate and understate the problem. For example: the statistics ignore "discouraged workers" (those who despaired and stopped looking for work). A second, more philosophical issue, is that, as opposed to frictional unemployment, which is a welcome sign, structural unemployment is not and must be fiercely fought by the state. But Economy give Politics a legitimacy to ignore structural unemployment as a part of life.

But the third problem is the most pressing: what is the "natural" rate of unemployment and how should it be determined? This is where NAIRU came in: the natural rate of unemployment could be construed as that rate of unemployment which prevented bad economic effects, such as inflation. In the USA this was estimated to be 5-6%. But this estimate was based on a long history of labour and inflation statistics. History proved the wrong guide in this case: the world has changed. Globalization, technological innovation, growing free international trade, growth in productivity, electronic money, the massive move to the "Third Wave" (Information and knowledge) industries – all this meant that inflationary pressures could be exported or absorbed and the employment could go much higher without fostering them. This became part of a new paradigm in economy which proclaimed the death of the business cycle and of the inflationary boom-bust phases. Though exaggerated and probably untrue, the "New Paradigm" did predict that productivity will grow, inflation will remain subdued, unemployment will decrease drastically and the prices of financial assets will explode – all simultaneously (which was considered hitherto impossible). The unemployment rate in the USA has stayed well below

5% and there are still no sign of inflation. This is remarkable (though probably short lived. Inflation will pick up there and the world over starting in 1998).

And what about Macedonia? It is one of a group of countries in transition that suffered an unprecedented series of external shocks separation from a Federation, the loss of virtually all export markets, economic siege, monetary instability, a collapse of the financial system, and, lately, interethnic tensions. Small wonder that it endured an outlandish (official) rate of unemployment (more than one third of the active workforce). Granted, the real unemployment rate is probably lower (many workers in the black economy go unreported) – still, these are daunting figures.

Is this a structural or frictional or cyclical unemployment? It is tempting to say that it is structural. It seems to be the result of trying to adapt to a brave new world: new technologies, new determinants of survival, new market mechanisms, the need for a set of completely new skills and new consumer preferences. But a closer analysis will yield a different picture: most of the unemployment in Macedonia (and in countries in transition in general) is cyclical and frictional. It is the result of massive layoffs which, in themselves, are the results of efficiency and productivity drives. It is not that the workforce is ill adapted to cope with the new, post-transition situation. The composition of skills is well balanced, the education, in some respects, better than in the West, labour mobility is enforced by the cruelty of the new labour markets, the pay is low and is likely to remain so (wage pressures don't go well with high unemployment). The workforce has adapted wondrously.

The failures belong to the management levels and, above all, to the political echelons. Unwilling to adapt, eager to make a quick (personal) buck, entrenched in cosy offices and old ways of thinking, more interested in their perks that in anything else, not educated in the new ways of the markets – they led themselves and their workers (=their voters) to the unemployment swamp. This unfortunate condition was avoidable.

There is no reason to assume that structural unemployment in Macedonia should be much higher than in Germany. The relative sizes and richness of the two economies is not relevant to this discussion. What is relevant is that labour in Macedonia is by far more mobile than in Germany, that it is paid much less, that it is, therefore, relatively more productive, that it is better educated, that both countries suffered external shocks (Germany the unification, Macedonia the transition), that both countries are macro-economically stable, that Macedonia has real natural and human endowments. By certain measures and theoretic formulas, the structural unemployment in Macedonia should be circa 9%, the frictional unemployment (the business cycle is turning up strongly so cyclical unemployment is bound to go down) contributing another 5%. The natural unemployment rate is, therefore, circa 15%.

Moreover, Macedonia is in the rare and enviable position of not having to worry about inflation or wage pressures. Even much higher employment will not create wage pressures. Only the most skilled workers will possess the ability to dictate their own wages and, even then, we are talking about ridiculous wages in Western terms. There is so much competition for every vacancy ("an employers' market") that the likelihood of demanding (and getting) higher wages (and, thus, generating inflationary pressures is all but non-existent). So NAIRU in Macedonian terms is an abstract notion with no applicability. Every additional percent of permanent employment in the West entails 2-3 as much in economic (GDP) growth. Macedonia has to grow by 10% and more annually to reduce the level of unemployment to 15% in 5 years (taking additions to the workforce into account). This is doable: Macedonia starts from such a low base that it would take little effort to achieve this kind of growth (to add 300 million USD to the GDP annually=3 months exports at today's rate).

But this rate of unemployment can be achieved only with the right policy decisions on the state level – and the right management cadre to take advantage of these decisions and of the thrilling new vistas of the global market scene. It is here that Macedonia is lacking – it is here that it should concentrate its efforts.

THE AUTHOR

Shmuel (Sam) Vaknin

Curriculum Vitae

Born in 1961 in Qiryat-Yam, Israel.
Served in the Israeli Defence Force (1979-1982) in training and education units.

Education

Graduated a few semesters in the Technion – Israel Institute of Technology, Haifa.
Ph.D. in Philosophy (major: Philosophy of Physics) – Pacific Western University, California, USA.
Graduate of numerous courses in Finance Theory and International Trading.
Certified E-Commerce Concepts Analyst by Brainbench.
Certified in Psychological Counselling Techniques by Brainbench.
Certified Financial Analyst by Brainbench.
Full proficiency in Hebrew and in English.

Business Experience

1980 to 1983

Founder and co-owner of a chain of computerized information kiosks in Tel-Aviv, Israel.

1982 to 1985

Senior positions with the Nessim D. Gaon Group of Companies in Geneva, Paris and New-York (NOGA and APROFIM SA):

– Chief Analyst of Edible Commodities in the Group's Headquarters in Switzerland
– Manager of the Research and Analysis Division
– Manager of the Data Processing Division
– Project Manager of the Nigerian Computerized Census
– Vice President in charge of RND and Advanced Technologies
– Vice President in charge of Sovereign Debt Financing

1985 to 1986

Represented Canadian Venture Capital Funds in Israel.

1986 to 1987

General Manager of IPE Ltd. in London. The firm financed international multi-lateral countertrade and leasing transactions.

1988 to 1990

Co-founder and Director of "Mikbats-Tesuah", a portfolio management firm based in Tel-Aviv.
Activities included large-scale portfolio management, underwriting, forex trading and general financial advisory services.

1990 to Present

Freelance consultant to many of Israel's Blue-Chip firms, mainly on issues related to the capital markets in Israel, Canada, the UK and the USA.
Consultant to foreign RND ventures and to governments on macro-economic matters.
Freelance journalist and analyst for various media in the USA.

1990 to 1995

President of the Israel chapter of the Professors World Peace Academy (PWPA) and (briefly) Israel representative of the "Washington Times".

1993 to 1994

Co-owner and Director of many business enterprises:
– The Omega and Energy Air-Conditioning Concern
– AVP Financial Consultants
– Handiman Legal Services – Total annual turnover of the group: 10 million USD.

Co-owner, Director and Finance Manager of COSTI Ltd. – Israel's largest computerized information vendor and developer. Raised funds through a series of private placements locally in the USA, Canada and London.

1993 to 1996

Publisher and Editor of a Capital Markets Newsletter distributed by subscription only to dozens of subscribers countrywide.
In a legal precedent in 1995 – studied in business schools and law faculties across Israel – was tried for his role in an attempted takeover of Israel's Agriculture Bank.
Was interned in the State School of Prison Wardens.
Managed the Central School Library, wrote, published and lectured on various occasions.
Managed the Internet and International News Department of an Israeli mass media group, "Ha-Tikshoret and Namer".
Assistant in the Law Faculty in Tel-Aviv University (to Prof. S.G. Shoham).

1996 to 1999

Financial consultant to leading businesses in Macedonia, Russia and the Czech Republic.

Economic commentator in "Nova Makedonija", "Dnevnik", "Makedonija Denes", "Izvestia", "Argumenti i Fakti", "The Middle East Times", "The New Presence", "Central Europe Review", and other periodicals, and in the economic programs on various channels of Macedonian Television.

Chief Lecturer in Macedonia in courses organized by the Agency of Privatization, by the Stock Exchange, and by the Ministry of Trade.

1999 to 2002

Economic Advisor to the Government of the Republic of Macedonia and to the Ministry of Finance.

2001 to 2003

Senior Business Correspondent for United Press International (UPI).

Web and Journalistic Activities

Author of extensive Web sites in:

– Psychology ("Malignant Self Love") – An Open Directory Cool Site,

– Philosophy ("Philosophical Musings"),

– Economics and Geopolitics ("World in Conflict and Transition").

Owner of the Narcissistic Abuse Study List and the Abusive Relationships Newsletter (more than 6000 members).

Owner of the Economies in Conflict and Transition Study List, the Toxic Relationships Study List, and the Link and Factoid Study List.

Editor of mental health disorders and Central and Eastern Europe categories in various Web directories (Open Directory, Search Europe, Mentalhelp.net).

Editor of the Personality Disorders, Narcissistic Personality Disorder, the Verbal and Emotional Abuse, and the Spousal (Domestic) Abuse and Violence topics on Suite 101 and Bellaonline.

Columnist and commentator in "The New Presence", United Press International (UPI), InternetContent, eBookWeb, PopMatters, "Global Politician", eBookNet, and "Central Europe Review".

Publications and Awards

"Managing Investment Portfolios in States of Uncertainty", Limon Publishers, Tel-Aviv, 1988

"The Gambling Industry", Limon Publishers, Tel-Aviv, 1990

"Requesting My Loved One – Short Stories", Yedioth Aharonot, Tel-Aviv, 1997

"The Suffering of Being Kafka" (electronic book of Hebrew and English Short Fiction), Prague and Skopje, 1998-2004
"The Macedonian Economy at a Crossroads – On the Way to a Healthier Economy" (dialogues with Nikola Gruevski), Skopje, 1998
"The Exporters' Pocketbook", Ministry of Trade, Republic of Macedonia, Skopje, 1999
"Malignant Self Love – Narcissism Revisited", Narcissus Publications, Prague and Skopje, 1999-2007
The Narcissism Series (e-books regarding relationships with abusive narcissists), Skopje, 1999-2007
"After the Rain – How the West Lost the East", Narcissus Publications in association with Central Europe Review/CEENMI, Prague and Skopje, 2000
Winner of numerous awards, among them Israel's Council of Culture and Art Prize for Maiden Prose (1997), The Rotary Club Award for Social Studies (1976), and the Bilateral Relations Studies Award of the American Embassy in Israel (1978).
Hundreds of professional articles in all fields of finances and the economy, and numerous articles dealing with geopolitical and political economic issues published in both print and Web periodicals in many countries.
Many appearances in the electronic media on subjects in philosophy and the sciences, and concerning economic matters.

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Poetry: http://samvak.tripod.com/contents.html

Fiction: http://samvak.tripod.com/sipurim.html

The Labour Divide - III. Entrepreneurship and Workaholism. V. The Labour Divide - IV. The Unions after Communism. VI. The Labour Divide - V. Employee Benefits and Ownership. VII. The Labour Divide - VI. The Future of Work. VIII. Immigrants and the Fallacy of Labour Scarcity. Battling Unemployment A First Draft Report Presented to the Minister of Labour and Social Policy By: Dr. Sam Vaknin Economic Advisor to the Government of the Republic of Macedonia. Download the Free Anthology "The Labor Divide". Click HERE to download. Plan to Reduce Unemployment in Macedonia 2007 (Submitted to Zoran Stavreski, Vice-Premier, April 2007).Â The landscape of labour has rarely undergone more all-pervasive and thorough changes than in the last decade. With the Cold War over, the world is in the throes of an unprecedented economic transition.