

#### 6.4 The Domestic Arena: Domestic Labour Adjustment

The globalization process is likely to continue for the foreseeable future. There are no indications that firms wish to or can constrain their strategic business options and contain their varied activities within national boundaries. Globalization and free trade arrangements will challenge existing labour patterns. But it is difficult to identify the degree to which "global" as opposed to "domestic" factors influence the need for labour adjustment. The fundamental implication of globalization for labour markets is that national labour markets must be flexible and government and business policies and practices that develop human capital are to be encouraged. If the labour force is able to move quickly between different firms and industries, adjustment to sectoral shocks, from either "global" or "domestic" factors, would tend to create relatively less amounts of unemployment. However, if the labour force adjusts slowly, and labour released from declining sectors do not have the skills demanded by expanding sectors, there would be a relative increase in unemployment levels.

Globalization points to the need for domestic labour policy to become increasingly internationally market-oriented, rather than nationally focused. Due to the mobility of capital and technology, all countries need to establish labour policies which promote labour mobility and skill acquisition. To the extent that globalization encourages and increases the rate of technological transfer and the development of new technology, additional pressure will be placed on labour and the need for effective adjustment programs. The degree to which globalization contributes to structural unemployment, where both unemployment and job vacancies may rise, as opposed to cyclical unemployment, also implies that a different policy mix will be required, particularly one that puts greater emphasis on human skills development.

The emphasis on skills acquisition raises a question on the degree of emphasis on traditional policy objectives. Governments' labour and employment policies have traditionally been designed to achieve both equity and efficiency goals. Income support policies may be considered equity programs. These programs are designed to reduce the individual burden of workers who face job loss or some other form of dislocation from the work force. In contrast, job finding assistance and retraining or relocation assistance also have efficiency goals.

In keeping with this view of policy goals, the OECD has broken public expenditure on labour market policies into "active" and "passive" policy groups.<sup>68</sup> The "active" group of measures are considered as having the potential to achieve

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<sup>68</sup> OECD, *Progress In Structural Reform: An Overview*, 1992.