The Post-Cold War Era and the Labour Market: An Overview

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Work, and not idleness, is the indispensable condition of happiness for every human being
—Leo Tolstoy (1892), *A Dialogue Among Clever People*

Nobody who works hard should be poor
—David K. Shipler (2005), *The Working Poor: Invisible in America, Random House*

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We have become rich countries of poor people
—Joseph Stiglitz (2006), *The Financial Times*

Imagine the uproar when Uber's cars start arriving without drivers.
—Martin Ford (2015), *Rise of the Robots: Technology and the Threat of a Jobless Future, Perseus Books*

1 A New Economic Era: From the Post-War Economic Boom to Secular Stagnation?

The economic growth performance in the post-Second World War era emerged as spectacular compared to previous periods. Using historical data from Bolt & van Zanden (2020), 43 years would have been required to double world per capita income with the average annual growth rate of 1.7% observed between 1900 and 1949. However, between 1950 and 1989, real per capita income grew at an average value of 2.6% per year, implying a doubling of income every 28 years. A similar trend has been observed during the last three decades, even taking into account that the Great Recession caused a sharp decrease in output in most economies. Real GDP per capita has multiplied by a factor of five between 1950 and 2019. As highlighted by Chau & Kanbur (2018), "before this period it took a thousand years for world per capita GDP to multiply by a factor of fifteen."

The post-war economic boom (also known as Golden Age of Capitalism—Marglin & Schor, 1992) was characterised by twenty years of sustained economic growth with high levels of labour productivity and low unemployment levels in West capitalist countries under a Keynesian policy framework. However, in the 1970s when the Bretton Woods monetary system collapsed and the sharp rise in oil prices in 1973, the reaction of Western Central Banks cutting interest rates to encourage growth ended up in an unexpected stagflation with high levels of inflation and unemployment at the same time (Bruno & Sachs, 1985). The fight against inflation under the new monetarist paradigm (Romer & Romer, 2013) and the structural changes after the oil crisis brought the world economy back to economic growth. In fact, the 1990s started with a mild recession followed by a robust period of expansion during which high productivity and income growth returned to most economies, a trend that was briefly interrupted at the beginning of the 2000s but followed by the most severe economic downturn since the 1929's Great Depression.

The Great Recession that occurred between 2007 and 2009 was not felt equally around the world; whereas most of the developed countries fell into a severe and long-lasting recession, other economies such as China or India grew substantially during this period (Keeley & Love, 2010). Moreover, the recovery after this crisis has not been as strong as expected. Summers (2018) revived the secular stagnation hypothesis to describe the economic situation in the United States after the Great Recession. The secular stagnation idea was formulated by Hansen (1939) to describe the macroeconomic developments of the US economy after the Great Depression. He identified a variety of factors that could explain the low investment demand in the 1930s, mainly an ageing population, too little immigration and reduced technological progress, factors that according to Summers could have also been relevant in the 2010s. Although the debate among economists regarding this issue is not fully closed, in the meanwhile the world economy has faced a new global shock associated with the COVID-19 pandemics.

2 A New Political Framework

While the period after the end of Second World War was characterised by decolonisation (also followed by an increase in the number of democracies), the beginning of the nineties was marked by the fall of the Berlin Wall and the official end to the Cold War, implying a major change in international and national institutional landscapes. In Europe, this meant a political approximation of countries with an expanding European Union and the expansion of liberal democracies. However, this period was also marked by a retreat of the state and a general intellectual move towards a more market-based economy. While the economy generally benefited, the position of labour became considerably frailer.

In developed countries, following the earlier elections of Thatcher and Reagan and contributing to the declining formal labour protection and falling union rates (Cummins, 2019). But also, development theorists and governments, often propelled by what would be coined as the "Washington Consensus," were walking towards development paths based in markets and less state intervention (Gore, 2000) with other authors such as Rodrik (2009) defending that economic development usually requires following policies that are tailored to local economic and political conditions rather than following "one common recipe." At the same time, the position of labour showed, at best, contradictory signs or even became considerably frailer.

These major changes in international and national institutional landscapes influenced the world of labour also by declining formal labour protections in developed countries, putting national labour movements under severe pressure, and by widening the inequality in the Global South and neglecting labour markets in developing countries. A more globalised and interconnected world also made inequalities more visible, discomforting and conflictive. In this sense, labour institutions and agencies were challenged throughout all this period, and intersectionality often comes to make more severe the situation of some (Berg & Kucera, 2008).

3 Difficult Times for Labour Markets

The intersection between macroeconomic developments and policy paradigms has clearly determined the evolution of labour markets. From this perspective, it is important to start recognising that, although there are still significant differences among (and within) countries, the post-war period has seen a global major improvement in living and working conditions accompanied by several transformations—see, for instance, Papastefanaki & Potamianos (2020) for Southern Europe or UN-Habitat (2006) on structural changes in developing countries. Education has been expanded, increasing the qualification of the labour force. After a century of compulsory schooling in the leading countries, schooling has been democratised throughout the globe, with developing countries at different stages now educating most of their youths and reducing gender inequalities (Frankema, 2009), although there is still a long way to go (Patrinos & Psacharopoulos, 2011). With a global population of 7.7 billion inhabitants in 2020 according to the World Bank, the labour force has nearly reached 3.5 billion workers with participation rates of population aged over 15 around 60%, although showing a clear decreasing trend in the last decades (see Fig. 1). While the decrease is more intense for men than for women, a similar trend is observed across sexes. The main reason is the delayed transition of young adults from education to work. But the main challenges are related to population ageing and the decline of the labour force due to lower fertility rates, two trends that are clearly observed in developed countries since some decades ago (D'Addio et al., 2010) and that will affect developing countries quite soon (ILO, 2018). In this context, migration has been seen as a potential solution. In fact, the United

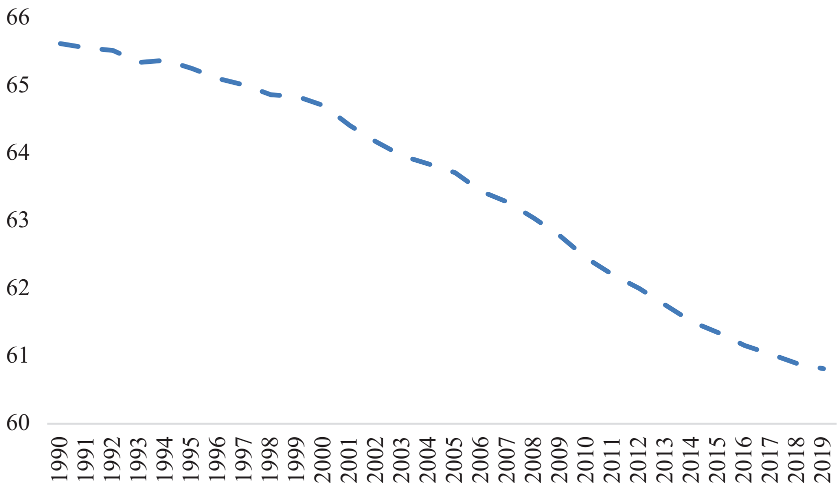

Fig. 1 Labour force participation rate (% of total population ages 15+). (Source: Own elaboration using data from the World Bank)

Nations (2000) report, where the migration volumes required to mitigate the effects of population decline and ageing were estimated, had a significant impact on the academic community (e.g. Card, 2005) and among citizens, but the debate about the pros and cons of this approach is still open.

As highlighted by Basso & Jimeno (2021) the second challenge that will shape the macroeconomy and the labour market in the coming decades is the technological change associated with the new wave of automation brought by developments in robotics and in artificial intelligence. In fact, if we look at the relative contribution of the factors behind real GDP per capita growth as shown in Fig. 2, we can see that capital and total factor productivity explain the highest part of global economic growth during the last thirty years. In fact, the last three decades have been marked by significant changes in the way global production is organised and robot adoptions can even accelerate the process (Cilekogl et al., 2021). Although the implementation of new technologies can be beneficial in the long run as it shifts the production frontier, it also involves a process of adaptation that has clear winners and losers. In fact, there is clear evidence about the relationship between technological change, outsourcing and job polarisation (Goos et al., 2014). Last, it is important to mention the potential

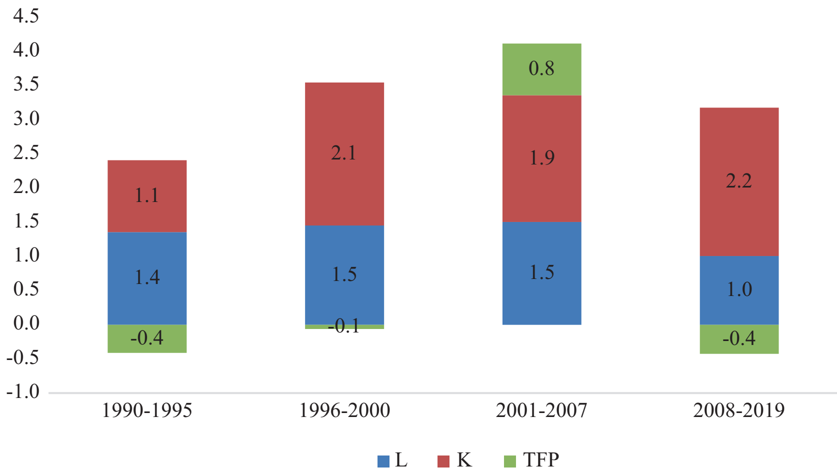

Fig. 2 Growth accounting of world real per capita GDP. (Source: Own elaboration using data from The Conference Board. Note: World real per capita GDP growth: 1990–1995: 2.0%, 1996–2000: 3.5%, 2001–2007: 4.1%, 2008–2019: 2.8%)

effects that the transition to a circular economy could have on labour markets (Méda, 2019). As Laubinger et al. (2020) highlight, structural changes in the economy from material-intensive to more labour-intensive activities could have potential benefits on employment, although the size of this effect is still unclear and difficult to quantify.

But the last decades have also seen important transformations in industrial relations and several labour market institutions have been reformed, particularly after the Great Recession (Adascalitei & Pignatti Morano, 2016). In the post-Cold War world, with declining unions and with the increase of what was once called atypical forms of work, agency is under challenge. While examining the US labour market outcomes, Groshen & Holzer (2021) describe the last 40-year trends as "disappointing," particularly for the working class. Would labour market policies be able to cope with the challenges ahead?

4 Concluding Remarks

During the last two years, the COVID-19 pandemic has accelerated some trends and challenges that were already affecting labour markets both in developed and developing countries. These include accelerated digitalisation and automation (partly related to the expansion of telework during lockdowns) and a growing relevance of non-standard forms of employment (such as platform workers) (ILO, 2021), but also migration responses to climatic change (Mcauliffe & Triandafillidou, 2021). The disruption caused by COVID-19 has negatively affected vulnerable and disadvantaged low-income households, migrants and workers in the informal sector, particularly in those countries with less-developed social safety nets making more evident the need to build stronger and more resilient institutions. But the pandemic has also led to a rise in protectionism and restrictions around the world that has clearly affected trade, foreign direct investment and migration (UNCTAD, 2020). However, as the economy recovers, the pandemic could also act as a catalyst for deep transformations in global value chains thanks to the enormous rescue and stimulus packages that have been adopted by developed economies. For instance, the twin transition (green and digital) that is the key element in the growth strategy of the European Union will undoubtedly change the economic landscape and the functioning of labour markets for the next decade. The contributions in the two volumes of this book can be helpful to achieve a better understanding of the present situation, but also the future developments.

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