

Discussion paper

A Global Agenda for Employment



International Labour Office, Geneva

A Global Agenda for Employment: Discussion Paper

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Executive Summary

The aim of the report: A new approach to employment policies

The central global challenge at the start of the 21st century is to secure decent work for people everywhere in conditions of equity, security and human dignity and thus draw out of poverty the 1.2 billion who are living below the poverty line.

Employment is fundamental in the fight against poverty and social exclusion, as was stressed by the World Summit for Social Development in 1995. In 2000 the 24th Special Session of the General Assembly recognized the need to elaborate a coherent and coordinated international strategy on employment to increase opportunities for people to achieve sustainable livelihoods and gain employment. It also supported the ILO's convening a World (Global) Employment Forum. The later Millennium Declaration underlined a number of global objectives to be achieved by 2015, including halving the numbers in poverty.

The Global Agenda for Employment is the ILO's response to both the General Assembly resolution and the millenium targets. It aims both to put employment at the top of the national and global agenda and to build a platform for strategic alliances between the ILO and other UN agencies and Bretton Woods institutions.

The Global Agenda for Employment is a major strategic dimension of the ILO's decent work agenda in which basic rights at work, employment, social protection and representation and social dialogue must advance together. They are a package. Rights at work embody core values, but they make no sense without work. Employment not only generates income and produces an output, it is a means of social integration. Social dialogue generates partnership and consensus on achieving the goals of decent work. Both social protection and employment contribute to the fundamental human need for a level of income security. All these different elements are mutually reinforcing, and the best way to achieve any one of them is by moving towards them all at the same time.

Through the Global Agenda the ILO will contribute to a new and dynamic approach for more successful employment policies in order to face the twin challenge of promoting change and properly managing change so as to create more and better jobs. It rests on the following interrelated six pillars:

- Decent work as a productive factor.
- Increasing incomes and productivity of the working poor through an emphasis on productive employment to fight poverty.
- Integrating economic, social and environmental considerations in a strategy for sustainable development based on a broader and more long-term development perspective.
- Realizing the virtuous circle of investment, productivity and employment growth.
- A commitment to mainstreaming equal opportunities between men and women and ensuring that women are enabled to fully contribute to, and to benefit from, economic and social development.
- A call for the coordination of global and national policy making to ensure a consistent approach to employment policy.

Part I

The global employment challenge

What is the problem and why did things go wrong?

Some countries have been successful in creating jobs and integrating people into gainful employment. However, in a general global perspective, the policies of the past have failed to create more and better jobs and prosperity. For some parts of the world, the last decade was a lost decade in the fight against poverty. The 1.2 billion poor in the world (living below the one US dollar per day poverty line) are supported by around 530 million, who are working, the working poor. Most of the rest are their families and dependants. Today, in addition, the global economy is in a downturn, which is slowing down economic growth, with serious effects on employment and the fight against poverty.

The global employment problem has both a regional dimension and a dimension reflecting the structure of economies at different stages of development.

- While unemployment is a serious problem in many developed and transition countries the major problem in the developing countries is one of low productive jobs, long working days, low income, and poverty.
- Regional differences are strongly related to differences in economic structures. Half of the work force of the world is still employed in agriculture, almost 60 per cent of the labour force in Asia and Africa work in the agricultural sector. Three quarters of the working poor in developing countries live in rural areas.

Present realities

There are numerous reasons why the process of world economic growth has not been steady and inclusive. The centrality of employment for a widely shared prosperity has not always been well understood. As a consequence the role of human resources for economic growth and prosperity has been neglected in many countries. Social policy has been seen as a burden for the economy, or as a policy for distribution of existing resources in a zero-sum game. Thus, policies for education and training, for health and safety, for information and consultation, and for social protection, have not been given the orientation and dynamic role they can and should play for a more growth oriented economic policy. Another reason is to be found in poor industrial relations and lack of social dialogue. In some countries these relations are based on mutual respect and understanding and this has led to improved productivity and prosperity. In many other countries unsatisfactory relations between workers and employers have undermined the performance of the economy and the creation of jobs. Furthermore, the different strategies proposed by the international community have not always been consistent with each other in their implications for output and employment growth and poverty reduction. While the different parts of the economy are strongly interdependent, global strategies have been formulated separately with different goals and objectives. Employment has for a long time not been a central element, either in macroeconomic strategies, or in development strategies.

Furthermore, the structure of the world economy has changed quickly and some countries are better equipped to benefit from such changes. Insufficient effort has been made nationally and internationally to spread the benefits of globalization fairly.

The global employment challenge: Creating 1 billion productive jobs in a decade

In the present state of the global economy with insecurity and slow growth there is a need to establish a strong and positive vision for the future in order to re-establish confidence. A first main element of this report is therefore the identification of the potential for economic growth through a better integration of the present and future labour force in productive employment. Even today there are 530 million working poor in the developing countries to be mobilized for more productive work - and better incomes. In the next ten years there will be an additional 500 million more people in the world's labour force; young people with better education and training and prepared to work, 97 per cent of them in developing countries.

The integration of one billion men and women into employment and into more productive employment in the next ten years is the big challenge for national governments, for the social partners and for civil society and for the UN agencies and the Bretton Woods institutions. Three scenarios are presented to illustrate the potential for economic growth as a result of absorbing new entrants in productive employment and raising the productivity of the working poor.

The *first, baseline scenario* ("business as usual") assumes that labour productivity and employment in every region will grow only at the same rate as in the 1990s, implying for the world as a whole growth rates of only 1.1 per cent for productivity, 1.4 to 1.5 per cent for employment and 2.6 per cent for GDP. This yields a rise in the number of unemployed from about 160 million in 2000 to almost 200 million in 2010. The projected expansion of employment in Sub-Saharan Africa, Latin America and the Caribbean and South Asia would be primarily in low-productivity and low-income jobs. Although global poverty declines, especially in China and East Asia, it becomes more concentrated in Sub-Saharan Africa.

The *second and third scenarios* show respectively the dividend in per capita growth from halving the unemployment rate and from halving both the unemployment rate and the working poor rate respectively (Table 1). Halving the unemployment rate results in a growth dividend of 2.8 per cent per capita growth annually for China. There is little bonus for sub-Saharan Africa.

The *third scenario* ("productive employment" scenario) illustrates the economic growth realizable if the potential of the existing and new labour force is more fully utilized. The growth dividend for parts of the world where poverty is concentrated, namely South Asia and Sub-Saharan Africa, are striking.

The purpose of the above scenarios is to illustrate the potential of a successful employment policy and the demands to be made on public policies. The first scenario is unacceptable; such an economic growth path will not meet the requirements of the millennium UN targets for poverty reduction. The second scenario shows that a fall in the

rate of unemployment only brings a marginal growth dividend. The last scenario shows the human resource potential of well-designed structural and macroeconomic policies. These can achieve the favourable combination of productivity growth and rising employment which has been the basis of successful employment performance in a number of countries in South East Asia and more recently in the United States.

Table 1: Future outlook

Region	Per capita GDP growth 1990-1999	Per capita growth dividend from:	
		Halving the unemployment rate with a constant working poor rate 1998-2010	Halving both the unemployment rate and the working poor rate 1998-2010
Sub-Saharan Africa	-0.3	0.1	2.8
Middle East and Northern Africa	0.9	2.9	3.0
South Asia	3.3	2.2	6.3
East and Southeast Asia	3.3	2.1	3.0
China	8.8	2.8	5.9
Latin America and the Caribbean	1.5	1.8	2.8

Source: C. Harasty, S. Berger and K. Coultts, *Halving the world's working poor by 2010*: ILO Geneva 2001, mimeo.

These scenarios differ from the reverse type of statistical exercise which calculates the rate of growth needed to halve poverty.

A basic condition for the realization of this potential for economic growth and prosperity is that productive employment is placed at the centre stage of economic and social policies. With full employment, improved productivity works in two ways to strengthen employment. First, it is the source of sustained real wage improvement. Second, improved productivity counteracts risks of inflationary pressure and, thus, gives more room for growth oriented demand policies. In this drive for productive employment enterprises are the main vehicle for new initiatives. Public policies must promote the activities of enterprises, within a well chosen policy framework, as the main source for productivity, investment and job creation and find a good balance between the flexibility which enterprises need in order to react to changing circumstances and the level of security which workers need in order for them also to adapt to change. Thus public policies must achieve a forceful drive for change and productivity growth on the one hand together with a socially responsible management of change on the other hand. Such a balance between flexibility and security requires a major policy shift towards strategies based on human resources investment, gender equality and social dialogue.

Part II

The challenge for policy makers: Promoting change and managing change

A second main element of the Agenda is a review of national and global strategies and policies needed for a better utilization of human resources. Its principal message is that there is a need for change, for modernization and for higher productivity to meet the expectations of workers and their families and for achieving the goals and targets set by the UN and other global organizations.

However, change often has profound effects on the labour market and on working conditions, creating winners and losers, including some and excluding others. In order to make this process both productive and inclusive and equitable, management of change must be improved, integrating social with economic policies at the global, as well as the, regional and national levels. These policies for the promotion of change and the management of change create opportunities for more growth-oriented macroeconomic policies and development strategies leading to more favourable employment outcomes.

Promotion of change for productive employment

This part of the Agenda is about those changes, which, driven by trade, technologies, entrepreneurship and public policies, contribute on balance to new investment, higher productivity and prosperity.

Trade and employment. Trade is a powerful driver of competition, change and productivity. Since the mid-eighties there has been a widespread liberalization of trade and investment regimes. For those developing countries which can assemble or produce good quality manufactures trade liberalization is an effective instrument for creating productive jobs through exporting. Other developing countries should be encouraged to diversify and upgrade their exports and should have better access to developed countries' markets.

Changing technologies. New information and communication technologies are reshaping the world of work, leading to new jobs and higher productivity. Innovation and the spread of new technologies are obviously driven mainly by enterprises and markets. But public policies can facilitate the introduction of ICTs and help to bridge the digital divide, between countries and between men and women, by promoting training and life-long learning.

Entrepreneurship. A continuous process of enterprise creation, innovation and expansion lies at the heart of successful employment policies. It is entrepreneurs, in small and big organizations, in companies and cooperatives, in the formal and informal sector, who turn potential into reality in production and job creation. Business initiatives should not be taken for granted; practical measures can be taken to encourage new entrepreneurs, and furthermore to encourage enterprises to face up to their social responsibilities.

Changing unsustainable patterns of production and consumption. The UN has made sustainable development the top priority for global governance. The World Summit in 2002 will focus on ensuring a balance between economic development, social development and environmental protection. This requires radical changes from the technologies, production methods and consumption patterns of the past. The UN hopes to emphasize much more the

economic and social aspects of sustainable development, which gives the ILO a central role in the shaping of a new strategy. The ILO will need to focus on sustainable development as an investment strategy, for the replacement of old, unsustainable technologies, with new cleaner technologies. Through such an investment strategy economic growth and employment can be stimulated, while pressure on natural resources is diminished.

Management of change for widely shared prosperity

Change is necessary to create productivity and prosperity. But change is no guarantee for a fair distribution of prosperity and opportunities. Therefore, the next part of the Agenda is about the social and labour market policies needed in order to manage change in a socially responsible way. It is based on a recognition that labour markets are different from markets for goods and services. Labour markets are about people, their skills and competencies, their aspirations and motivation. While competition and “creative destruction” is necessary in markets for goods and services to improve productivity and prosperity, it may lead to a race to the bottom and exclusion in the labour market. That is the reason why the labour market needs both a policy for human resource development and a social floor in the form of labour standards and social protection.

Such policies, when well designed, will facilitate change and improve productivity. They do so through different mechanisms. One is that a social floor establishes a productivity level, which enterprises need to meet to be profitable and viable. Thus, establishing a social floor puts pressure on enterprises to improve continuously their productivity. Furthermore, a social floor, in the form of labour standards, social protection or a minimum wage, contributes to the overall economic climate by giving people expectations on a certain degree of stability for jobs and income. In other words, a decent work strategy contributes to a long-term perspective on growth and development.

A social floor is one element in a decent work strategy. Another is human resource investment. Experience of the last two decades shows that economic growth more and more has to be built on investment in human resources. By improving the capacity of workers – through education and training, through better health and safety, through better information and consultation and social protection– the growth prospects of the whole economy will be enhanced. Such an approach is a way of improving both flexibility for enterprises and security for workers and the growth and productivity potential of the economy.

Skills for change. Investment in education, training and life-long learning is the key to higher labour productivity, to the enterprise’s capacity to adapt to change and to maintaining the employability of individual workers, thus in turn fighting unemployment and social exclusion. Education and training prepare the individual not only for work but for responsible participation in society. The ILO supports the UNESCO Education for All Framework and the targets set for education and training by 2015. In its own field of responsibility the ILO is preparing a new Recommendation on human resources development and training. Reforms in this area should stress the need to share responsibilities for investing in education and training and, in particular, life long learning, through partnerships between the state, the social partners, individuals and other stakeholders, especially in the private sector.

Security in change. Social protection is fundamentally important in managing change. It enhances both the dynamism of the economy and the mobility of labour, thus promoting employment. However, in the world as a whole less than 20 per cent of the population is

properly covered by social security, most of them in the industrialized countries. Even within these countries, the level of social protection varies widely. Many social protection systems show a clear need for reform in order to cover risks more effectively and to encourage job creation and job seeking. In addition to these issues the strategy of the ILO is to focus primarily on the extension of coverage, on better administration and on a fair deal for women.

Safety in change. Good health is a prerequisite for employability and productive employment. In general the global health situation is improving and life expectancy rising. However, disease and injury still force millions of people out of work for shorter or longer periods, some of them forever, reducing both their earnings and total output. The WHO health strategy and the new ILO health and safety strategy, “Safe Work”, are integrated in the global employment agenda. “Safe Work” aims at creating worldwide awareness of the scale of work related accidents, promoting basic protection for all workers and raising the capacity of governments and industry to design and implement more effective preventive and protective policies.

Management of change in labour markets. The design and implementation of active labour market policies is an important element of a global employment strategy. Such policies must have a wide scope, encouraging all other policies of importance for the labour market to go in the direction of additional labour absorption, facilitating an effective matching of supply and demand and giving particular support to men and women who risk becoming marginalized and excluded from working life. Thus, policies for equal opportunities have to be mainstreamed in all policies of relevance for the labour market. Furthermore, even with more successful employment policies and a better division of labour than in the past demographic developments over the next ten years will lead to a fast growth of labour in some regions and countries, and a need for more labour in others. A global debate is timely on appropriate policies to serve the interests of migrant sending and receiving countries at all levels of development and of their workers, both men and women.

Coordinated policies for growth, employment and poverty alleviation

If the forces for change are actively promoted and change is well managed this allows for more expansionary policies for growth, employment and poverty alleviation.

Combining stability, growth and employment. The global economy is in a downturn and there is a need for concerted action by governments in the leading economies to re-establish confidence. The scenarios presented earlier illustrate the huge potential for economic growth of a successful integration of over 1,000 million people into employment and more productive employment. The important lesson in the 1990s is that there need be no simple trade off between employment growth and controlling inflation; several countries have demonstrated that sustained economic growth and more jobs can be combined with low inflation and low budget deficits. Furthermore, improved productivity can go hand in hand with faster employment creation. Thus, an integrated economic and social approach to employment generation will create more room for growth-oriented macroeconomic policies. At the same time, these policies, both globally and nationally, must be framed in ways that avoid disruption and, when economic shocks do occur, remedial adjustment measures must counteract any negative consequences for employment.

Productive employment as a basis for development strategies. While average incomes have risen in many developing countries, poverty remains the number one problem in many regions. Poverty in developing countries is usually due less to open unemployment, than to the inability of many jobs to ensure decent levels of income. In developing countries there are some 110 million unemployed, but 530 million working poor. Many developing countries are facing a stabilization trap. They have reduced budget deficits and inflation but are unable to achieve growth and poverty reduction. They need to stimulate productive investment and raise the skill levels of the work force and they also need to take direct steps to help the working poor. Most of these are in rural areas and are largely dependent on agriculture. Such direct measures can be either programmes for employment and income generation or measures supporting consumption and providing services (e.g. subsidies on food).

International dimension: Consistent policies for employment

Internationally it remains essential that globalization should be perceived as working in favour of all workers. This requires further implementation of core labour standards. It also requires a better global coordination of all policies which impact on employment both domestically and internationally. These policies include a coordinated expansion in demand, fairer approaches to commercial and financial flows as well as a new framework for international migration.

Part III Policy lessons and global alliances

The review of the different global strategies of importance for employment and the creation of a new Global Agenda for Employment are first steps in a better global governance of employment policies. The report strives to initiate a global debate which will build consensus for the next step, the establishment of Global Alliances for Employment.

Therefore, the third main element of this report is a framework for Global Alliances for employment. It includes two elements, a proposal for the establishment of global employment priorities and a new approach, through which the UN agencies and the Bretton Wood institutions establish broad frameworks. These should be based on a recognition of the centrality of employment and the diversity of the economic and social conditions in different countries. In cooperation with the social partners member States are responsible for developing national employment policies and action plans, based on these global priorities and different national conditions.

A new approach to policy making: Global priorities for national employment policies

The ILO proposes a new approach to employment policy making by introducing a small number of global employment priorities to be used as a basis for global alliances and for national action plans in all countries. The ILO proposes the following policy priorities for the review, rethinking and reorientation of all policies of importance for employment:

- ***decent work as a productive factor***; decent work is itself a factor leading to increased productivity and economic growth;
- ***poverty alleviation***; give priority to productive employment to the working poor as basis for all development strategies and policies;
- ***sustainability***; integrate economic, social and environmental objectives in all global strategies and national policies and give priority to new technologies, production methods and consumption patterns, through which economic growth can be decoupled from pressure on natural resources;
- ***gender equality***; mainstream equal opportunities between men and women in all global strategies and national policies and ensure that women are enabled to fully contribute to and benefit from economic and social development;
- ***employability and adaptability***; give priority to life long learning to make people ready for existing and future jobs, and strengthen social dialogue to facilitate flexibility of enterprises and to promote workers security in employment;
- ***entrepreneurship and productive investment***; give priority in global strategies and national policies to measures to make it easier to start and run enterprises, while respecting labour and environmental standards.

These priorities are structural and have the aim of improving the functioning of labour markets and economies. Successful improvements in these respects pave the way for growth and employment oriented macroeconomic policies:

- ***macroeconomic policies for growth and employment***; make full, productive and freely chosen employment an overall objective of macroeconomic strategies and national policies.

A new approach to policy making: Global strategies, national action plans

Furthermore, the Agenda proposes that UN agencies and the Bretton Wood institutions establish a broad framework at the global level, based on a recognition of the centrality of employment. This framework should serve the member states in their task of developing and implementing national employment action plans in consultation with the social partners.

- ***Building strategic alliances at the global level.*** The ILO invites all UN agencies and the Bretton Wood institutions to contribute to the further development of the Global Employment Agenda and the preparations for the next step, Global Alliances for Employment. A first such strategic alliance is successfully in operation between the UN, the World Bank and the ILO on youth employment with the active involvement of the Secretary General of the UN, the President of the World Bank and the Director General of the ILO.

- ***Focusing social dialogue on more and better jobs.*** The social partners are crucial in achieving national and international consensus on, first, a new Global Employment Agenda and then, establishing Global Alliances for Employment. The social partners need to play a major role in both the design of a global strategy based on the priorities presented above and in its implementation nationally and locally. Management of change in the labour market must be the responsibility of all the social partners and social dialogue must be a central element of labour market governance. The more the social partners can do together, the more credible, concrete and successful the strategy will be.
- ***Strengthening national employment policies.*** National governments are responsible for employment policy and ILO's Global Alliance offers a framework for national policy making, placing employment at the centre of economic and social policies. With this new emphasis on employment the ILO will provide governments with concrete and meaningful guidelines for the formulation of national employment strategies based on the goals of the Employment Policy Convention, No. 122.
- ***Building strategic alliances for regional coordination.*** There is an immense variety in economic and social conditions among different regions and countries in the world. The Agenda recognizes that the success of employment policies depends on how well these regional specificities can be taken into account. The ILO invites all regional political as well as economic organizations, including the development banks, to contribute to the shaping of the Agenda and to the building of strong alliances for more and better jobs.

The ILO has given special attention to Africa through the Jobs for Africa programme, and will seek to develop this programme to an alliance with the new African Union and its Member States, supported by UN agencies, the World Bank and the IMF.

- ***Building strategic alliances with business and the civil society.*** This initiative taken by the United Nations Secretary General involves business in implementing universal values, including those set out in the ILO Declaration on Fundamental Principles and Rights at Work. The Global compact has become an important reference point for the international business community and is aimed at improving corporate practice in the social arena and at encouraging dialogue between business and a range of social actors. The ILO invites the UN Global Compact to take an active part in the building of global alliances for employment.
- ***Preparing indicators and benchmarks for successful employment policies.*** To make a global employment strategy successful there must be benchmarks to support policy making and indicators to measure performance and to facilitate review and comparison. The ILO Key Indicators of the Labour Market (KILM) is a critical step toward the development of a set of tools for evaluating and designing labour market policies in relation to labour force participation, employment, unemployment, educational attainment, wages and compensation cost, productivity and labour cost, as well as poverty and income distribution.

Part I

The global employment challenge

Chapter 1

The employment challenge

1.1 Towards decent work for all

At the opening of the 21st century, the world community set itself ambitious targets to reduce the number of people in poverty. Specifically the rate of poverty of 1990 was to be halved by the year 2015. The central challenge in doing this is to secure decent work for people everywhere in conditions of equity, security, and human dignity. This will draw out of poverty the 1.2 billion people who are living on less than one dollar a day.

Employment is fundamental to this challenge. Nothing, in fact, is more fundamental to poverty reduction than employment. To treat it as a residual outcome of macroeconomic and sectoral policy is wasteful and wrong. Freely chosen, productive employment should be placed at the top of the policymaking agenda because, more than any other factor, it provides the most effective means of reducing poverty and ensuring equitable growth and the enjoyment of basic rights.

Yet the present reality glaringly reveals that being at work alone is not enough to provide satisfactory employment. There are 160 million unemployed people at the outset of this decade. This is indeed a loss of human potential. But most of the 1.2 billion poor people, a full fifth of the world's population, are supported by 530 million family members who do have work. They are the working poor who are engaged in low-productivity, low-paying work that is inadequate to raise themselves and their families out of poverty. An additional almost 300 million people in the world do not have enough work: they are underemployed, and would work more if they had the opportunity. Taken together, either because they are unemployed, underemployed, or with incomes inadequate to support their families despite their work, a full third of the world's labour force of 3 billion people cannot obtain the material rewards from work which they need and to which they aspire.

Employment is central to poverty reduction through the material reward that work provides. But the employment challenge is not solely one of income, and here, too, work alone is not enough. Poverty is characterized by many more factors than inadequate income. So, too, does people's work mean more to them than financial reward. Employment is a primary vehicle of self-realization and social integration. It is at work, whether in wage employment or self-employment, that people experience fairness or unfairness, where they are respected or not, where their voice is heard or ignored, where self-worth is either nurtured or denigrated. Work is thus as much about human rights as it is about income. The fair treatment and dignity to which people aspire in employment must be assured in order for there to be decent work.

Box 1.1: Decent work

Decent work finds expression in workers' feelings of value and satisfaction and its absence can be noticed at once. Decent work is about your job and future prospects, about your working conditions; about balancing work and family life, putting your kids through school or getting them out of child labour. It is about gender equality, equal recognition, and enabling women to make choices and take control of their lives. It is about your personal abilities to compete in the market place, keep up with new technological skills and remain healthy. It is about developing your entrepreneurial skills, about receiving a fair share of the wealth that you have helped to create and not being discriminated against; it is about having a voice in your workplace and your community. In the most extreme situations it is about moving from subsistence to existence.

Decent work is missing when:

- there is involuntary unemployment and poverty;
- there are abuses of rights at work and forced and child labour exist, and discrimination is practised;
- basic income security is missing and workplace anxiety, depression and exhaustion are commonplace;
- workers and employers are either not organized to make their voice heard, or face obstacles to effective dialogue;
- life at work cannot be properly balanced with the claims of the family.

The employment challenge is thus the challenge of decent work. This report – *A New Global Agenda for Employment* – aims to put the broad dimensions of the employment challenge at the top of the national and global agenda, and to build a platform for strategic alliances for full and productive employment between the ILO and other UN agencies and Bretton Woods institutions.

The *Global Agenda for Employment* is a major strategic dimension of the ILO's decent work agenda in which basic rights at work and freely chosen, productive employment must advance together. They are a package. Rights at work embody core values, but these obviously cannot be expressed without work itself. Again, employment is fundamental. But employment alone falls short of meeting all people's aspirations or, indeed, needs from work. For example, both social protection and employment contribute to the fundamental human need for a level of income security. This is one way in which labour markets are unlike other markets: people require some security, without which labour market behaviour can be both economically and socially dysfunctional. Or, for example, through workers' right to have a voice at work, and to associate with others sharing their interests, social dialogue can generate the social partnership and consensus instrumental in overcoming disruptive conflict and defining and achieving the goals of decent work.

Poor quality jobs, low pay, overwork and unsafe and unhealthy working conditions and job and income insecurity are widespread. Women in most parts of the world remain discriminated against, an overworked and under paid human resource whose skill development is neglected; making better use of their potential and improving their status, opportunities and conditions of work will help to break the grip of poverty everywhere. It thus stands to reason that the best way to achieve any one of the goals of decent work is by moving towards them all at the same time. That is why, while this document's core concern is with employment, it must be integrally linked to the decent work dimension of the ILO's agenda.

Box1.2: The centrality of employment

Employment should be placed at the centre of the policy making agenda because properly developing and using human resources is crucial in achieving higher productivity and ensuring equitable growth. To treat employment as a residual outcome of macroeconomic and sectoral policy underestimates the positive contribution labour can make to innovation and growth. Furthermore experience in both developed and developing economies shows that employment provides the most effective means of alleviating poverty. Plentiful but decent work is the main hope for tackling problems of poverty and social exclusion. Employment also provides a key link between economic and social policy; economic policies which affect employment have consequences for social policy and vice versa. The European Union's employment strategy is an example of such a link. First, making employment an area of common concern through the Amsterdam Treaty in 1997 provided a counterweight to the macro and fiscal policy guidelines agreed under the Maastricht treaty. Second EU employment policy includes social policy initiatives such as life long learning, child care provision and other measures to bring about equal opportunities for men and women. The implementation of the European employment strategy is discussed further in Chapter 3, Section 5.

Through this report the ILO offers a dynamic approach for more successful employment policies. It proposes the integration of economic and social policy and stresses the favourable interaction of sound macroeconomic and development policies with well-functioning labour markets and labour market institutions as the key to growth and prosperity. Labour markets are different from markets for goods and services; they are about people, their skills and competencies, their health and security, their aspirations and their motivation. They are also about the way that the self-employed earn their living and decide whether to seek wage employment and the way that wage workers interact with enterprises and the latter's need to have the right person doing the right job; enterprises that are in a constant process of change, due to new technologies, to global, national and local competition, new ideas and new business initiatives.

Box 1.3: An employment policy for women and men

The unmet employment demands of the twenty-first century are those of women as much as of men. In most of the world the number of female workers and job seekers has been rising faster than that of males while women still constitute the larger part of the world's untapped labour reserve. Breaking down the barriers to women's integration into work expands the human talent pool and provides more people with the modicum of security and individual fulfilment that can come from having one's own job. In developed countries the increasing instability and fragmentation of families has exposed women with no wage income or few pension rights to a high risk of poverty after family breakdown and in old age. In the developing world households headed by women are over represented among the working poor while women take on so much unpaid work within the family enterprise. Recognizing for the purposes of social security and properly remunerating the work that women currently do, whether completely unpaid or for low pay in the informal economy, must become a major part of the new global agenda for employment.

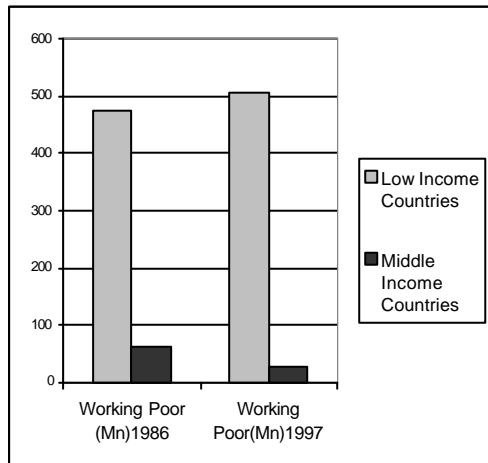
Over the next decade the potential for economic growth is huge. To begin with, there are over 500 million working poor in the developing countries to be mobilized for more productive work - and better incomes (see Box 1.4). In all of Europe and North America there are some 53 million unemployed. In the next ten years there will be an additional 500 million more people in the world's labour force; young people with better education and training. The integration of all these people not into low quality employment but into more

productive employment is the big challenge for national governments, for the social partners, for civil society and for the UN agencies and for the Bretton Woods institutions.

A basic condition for the realization of this potential for economic growth and prosperity is that productive employment is placed at the centre stage of economic and social policies. With full employment, improved productivity works in two ways to strengthen employment quality. First, it is the only source of sustained real wage improvement. Second, given wage growth, improved productivity counteracts risks of inflationary pressure and thus gives more room for growth oriented demand policies. Enterprises are the main vehicle for new initiatives for productivity. Public policies must promote the activities of enterprises, within a well chosen policy framework, as the main source for productivity, investment and job creation and find a good balance between the flexibility which enterprises need in order to react to changing circumstances and the level of security which workers need in order for them also to adapt to change. *Thus public policies must achieve a forceful drive for change and productivity growth on the one hand together with a socially responsible management of change on the other hand. Such a balance between flexibility and security requires a major policy shift towards strategies based on human resources investment, gender equality and social dialogue.*

Box 1.4: The working poor

The 1.2 billion poor in the world (living below the one US\$ per day poverty line) are supported by around 530 million who are working, - the "working poor" - most of the rest are their families and dependants. The growth experience of the 1980s and 1990s reduced the overall numbers of the working poor but, in the face of population growth, by very little. In



fact, *one in every four employed persons in the developing world is one of the working poor.*

In the low income countries the working poor have increased. The decline that has taken place in the working poor in the developing world overall is driven by changes in middle income countries. Over the decade, the share of middle income countries in the total working poor declined from 12 per cent to 5 per cent, while that of low income countries increased from 88 per cent to 95 per cent.

The one US \$ per day poverty line (at 1993 prices) is used internationally as a convenient indicator. Like any poverty line it has drawbacks. It refers only to own income in cash or kind and not to the enjoyment of publicly provided services; it tells nothing about relative income inequality. These drawbacks should be borne in mind.

Source: N. Majid, *The size of the working poor population in developing countries*, Employment Paper 2001/16, ILO Geneva, 2001.

1.2 Global employment trends: Present realities

Present realities

In its World Employment Report 2001 "Life at work in the information society", the ILO reviewed current global employment trends. They can be summarised in the following points:

- \$ Employment increased on average by 1.4 per cent a year in the 1990s, below the labour force growth rate of 1.7 per cent. Additionally labour force participation fell from 62.9 per cent of the 15-64 age group in 1990 to 61.6 per cent in 1999. In the last few years the global economy has created about 40 million jobs a year compared to about 48 million new jobseekers. Of the 40 million new jobs as many as 10 million are in the ranks of the working poor or otherwise underemployed.
- \$ Although population in developing countries continues to move to the towns to enjoy generally better living conditions, nearly 50 per cent of the world's labour force still works in agriculture. Of the poor in developing countries fully 75 per cent live in rural areas.
- \$ Most new jobs are created in the small enterprise sector; in developing countries a growing number of these jobs are in the informal part of the economy and many are of low quality.
- \$ The labour market remains gender segregated although female participation rates have been rising as those of males have been falling. Unemployment rates are often higher for women and part-time work is very much a female domain. Women may spend less time on paid work than men but they spend considerably more time on unpaid work. And they continue to receive lower wages on average than men. Non-salaried male workers tend to be self-employed, non-salaried women tend to be unpaid family workers.
- \$ Regional disparities are high and often increasing. In Sub-Saharan Africa around 46 per cent of the population lives in poverty, compared to 15 per cent in East Asia and Latin America, and 40 per cent in South Asia. Furthermore, merely over the past 20 years the ratio of per capita income in current dollars between the developed countries and sub-Saharan Africa has risen from a factor of 50 to one to over 90 to one. Interactions between different regions and countries are taking new forms, partly reflecting developments in financial instruments and markets, and the benefits of globalization fail to reach many of the world's population
- Of the increase in the world labour force over the next decade, nearly all will be in developing countries and fully 65 per cent in Asia. Among the larger industrialized countries only in the United States is the population expected to rise and not fall over the next 20-30 years.
- Unemployment rates remain a major indicator of labour market outcomes. In some regions they have risen throughout the 1990s (see Table 1.1), elsewhere they are often still higher than in 1990, despite falls since the mid 1990s.

Table 1.1: Rates of unemployment in different regions of the world, 1990-2000

	1990	1995	2000
Developed countries	6.1	7.4	6.2
Europe	7.7	11.0	8.5
Japan	2.14	3.2	4.8
United States	.0	5.6	4.1
Latin America and the Caribbean	5.7	7.6	7.1 (1999)
Asia and the Pacific	4.0	4.1	4.5 (1999)
Transition economies	...	8.5	11.9
Middle East and North Africa	7.1	10.9	...

Sources: ILO: *Key Indicators of the Labour Market 1999* (KILM) (Geneva: ILO, 2001).

- For developing countries the unemployment indicator is an insufficient guide to employment conditions. The extent of the working poor must also be considered. Table 1.2 combines the open unemployment rate with the percentage of working poor in the labour force, giving an index of conditions in the labour market.

Table 1.2: Conditions in the labour market (CLM) in developing countries: Major regions (2000) (per cent)

Region	Unemployment rate (i)	Working poverty rate (ii)	CLM (i) and (ii)
Middle East and North Africa	10.9 ²	2.0	12.9
Subsaharan Africa ³	4.9	46.3	51.2
Latin America and the Caribbean	7.1 ¹	15.6	22.7
East and South east Asia	7.0	11.3	18.3
South Asia ³	3.3	40.0	43.3
China	5.0	18.5	23.5

Source: ILO estimates

¹ 1999.

² 1995

³ Estimate

Among developing countries labour market conditions vary across regions. Even today a major portion of the world's labour force still earns its living from agriculture. At the turn of the century almost 60 per cent of the labour force in Asia and Africa worked in the agricultural sector (Appendix Table A.1). Three quarters of the working poor in developing countries live in rural areas. A major challenge for many developing countries is therefore to increase incomes, productivity, and indeed labour absorption, in both the farm and non-farm rural sectors.

The employment generating capacity of manufacturing has declined in the advanced countries, although its indirect impact in stimulating employment elsewhere in the economy remains very strong. Its share has decreased most significantly in North America. In Asia and Africa there were marginal increases from 12.6 and 6.5 per cent in 1990 to 14.1 and 6.9 per cent respectively in 2000.

In almost all the world the share of the labour force in services has increased, although it varies across regions. It ranges from around 80 per cent in North America to 60 per cent in Europe and Latin America and around 35 per cent in Africa and 25 per cent in Asia. The quality of jobs in the services sector varies considerably. In some parts of the developing world the growth of the services sector has been characterized by rising incomes and productivity -- in others most jobs are of poor quality with low incomes, mostly in the informal economy, which acts as a "sponge" when the demand for labour is weak.

One further dimension of employment structure is the extent to which the family is the effective economic unit in which people work. Appendix Table A.2 combines the number of self-employed, i.e. those employing no wage labour, and unpaid family workers as the "family" employment sector. As can be seen the share of family employment in low-income countries is very high. By contrast in some Central European countries it is extremely low, reflecting past patterns of economic organization and could well rise over the coming years. The share is by no means necessarily higher for women than men.

There are numerous reasons why the process of world economic growth has not been steady and inclusive over the last decades. Without an effort to correct vast inequalities in access to education or in wealth, growth can have disequalizing effects which can lead to social instability and reinforce poor economic policies. The structure of the world economy has changed quickly and some countries and social groups are better equipped to benefit from such change than are others. Insufficient effort has been made nationally and internationally to spread the benefits of globalization fairly. The problems posed by a poor resource endowment and low skills are extremely serious ones, however well intentioned domestic policies may be. Economic stagnation can well result unless high levels of international assistance are forthcoming. In addition, economic systems can behave unpredictably in ways which policy makers cannot control especially when new financial instruments are developed. Wars, famines and natural disasters can put back social progress substantially. In addition poor industrial relations and lack of social dialogue hold back the introduction of new technologies and discourage new investment. Finally policy-makers have not consistently aimed for full and productive employment.

1.3 The outlook

In the present state of the global economy with insecurity and slow growth there is a need to establish a strong and positive vision for the future in order to re-establish confidence. A first main element of the report is the identification of the *potential* for economic growth through a better integration of the present and future labour force in productive employment. *Increasing productivity* of the new entrants and the working poor must be at the centre of a strategy to achieve this aim. During the 1990s the rate of increase in labour productivity was disappointingly low, averaging little more than 1 per cent for the world as a whole. *The urgent priority in the coming decade is to combine the creation of a larger number of new jobs and consequent fall in unemployment with a reduction in the number of working poor and an increase in the quality of employment.*

Three scenarios are presented to illustrate the potential for economic growth as a result of absorbing new entrants in productive employment and raising the productivity of the working poor.

The *first, baseline scenario* (“business as usual”) assumes that labour productivity and employment in every region will grow only at the same rate as in the 1990s, implying for the world as a whole growth rates of only 1.1. per cent for productivity, 1.4 to 1.5 per cent for employment and 2.6 per cent for GDP. This yields a rise in the number of unemployed from about 160 million in 2000 to almost 200 million in 2010. The projected expansion of employment in Subsaharan Africa, Latin America and the Caribbean and South Asia would be primarily in low-productivity and low-income jobs. Although global poverty declines especially in China and East Asia, it becomes more concentrated in Subsaharan Africa.

The *second and third scenarios* show respectively the dividend in per capita growth from halving the employment rate and from halving both the unemployment rate and the working poor rate respectively (Table 1.3). Halving the unemployment rate results in a growth dividend of 2.8 per cent per capita growth annually for China. There is little bonus for sub-Saharan Africa.

The *third scenario* (“productive employment” scenario) illustrates the economic growth realizable if the potential of the existing and new labour force is more fully utilized. The growth dividend for parts of the world where poverty is concentrated, namely South Asia and Subsaharan Africa, are striking.

The purpose of the above scenarios is to illustrate the potential of a successful employment policy and the demands to be made on public policies. The first scenario is unacceptable; such an economic growth path will not meet the requirements of the millennium UN targets for poverty reduction. The second scenario shows that a fall in the rate of unemployment only brings a marginal growth dividend. The last scenario shows the human resource potential of well-designed structural and macroeconomic policies. These can achieve the favourable combination of productivity growth and rising employment has been the basis of successful employment performance in a number of countries in South East Asia and more recently in the United States.

Table 1.3: Future outlook

Region	Per capita GDP growth 1990-1999	Per capita growth dividend from:	
		Halving the unemployment rate with a constant working poor rate 1998-2010	Halving both the unemployment rate and the working poor rate 1998-2010
Sub-Saharan Africa	-0.3	0.1	2.8
Middle East and Northern Africa	0.9	2.9	3.0
South Asia	3.3	2.2	6.3
East and Southeast Asia	3.3	2.1	3.0
China	8.8	2.8	5.9
Latin America and the Caribbean	1.5	1.8	2.8

Source: C. Harasty, S. Berger and K. Coutts, *Halving the world's working poor by 2010*; ILO Geneva 2001, mimeo.

These scenarios differ from the reverse type of statistical exercise which starts from a historical relationship between growth and poverty reductions and calculates the rate of growth needed to halve poverty.

1.4 Key elements of the new approach

The ILO's new approach to an employment strategy rests on the following interrelated six pillars:

- Decent work as a productive factor;
- Raising incomes of the working poor;
- Social and environmental sustainability;
- Investment and economic and productivity growth;
- Gender equality; and
- The international dimension – consistent policies for employment.

Decent work as a productive factor

The starting point for the creation of decent work is expressed in the Declaration of Fundamental Principles and Rights at Work. These cover workers' and employers' right to associate together and negotiate collectively, the outlawing of forced labour and child labour as well as overcoming discrimination at work.

Decent work is itself a factor leading to increased productivity and output. In terms of the Declaration of Fundamental Principles and Rights at Work the productive contribution is given by the following: the positive contribution which collective action and good industrial relations can make to productivity through encouraging better management, generating information for use in decision making and negotiating an agreed position on managing processes of change; the effects of restricting child labour on encouraging school attendance; the benefits of raising productivity through a free choice of employment; and, by overcoming discrimination, simply allowing the best person or group of people to do the job and build up their own productive capacity. Going beyond the elements of the Declaration to the ILO's commitment to expanding social protection and improving occupational safety and health, these have the benefit of managing economic change in a socially acceptable manner and reducing the economic costs of employment-related injuries and illness.

Raising incomes of the working poor

Unproductive and insecure work is incompatible with both decent work and full employment. Poverty alleviation, which can be achieved through raising the demand for labour, helping the self-employed make better use of their assets, raising the education and training levels of labour, improving the terms on which the labour services of the poor are sold and strengthening the negotiating power of labour, must be a major policy goal and influence the growth and development process at all levels.

Social and environmental sustainability

An employment strategy has to meet the criteria of being both socially and

environmentally sustainable. Social sustainability requires above all that the outcomes of economic growth should be seen to be fair and well distributed. Partly, with a decent work package in place, *and through social dialogue*, this is a question of how the consequences of economic change for the individual worker can be discussed, anticipated, through e.g. retraining and, in the last resort, to some degree protected against through social measures, e.g. unemployment benefits. But fairness extends also to expecting a good and honest government administration, good public services and an equitably shared tax burden.

Environmental sustainability has also become crucial. Many production processes and products are resource depleting and threatening human survival and will have to change. The broad parameters of some of those changes are known but predicting their overall impact on jobs, skills, and the location of production is a major challenge. It is therefore all the more important to have at hand the tools with which the consequences of such changes can be managed and guided.

Investment and economic and productivity growth

An employment strategy is based on *economic growth*. This supports the activities of the working poor and the demand for their labour. Growth arises through the promotion of change and is sustained by a good management of change. Change requires investment which growth will finance. Growth also pays for the compensatory and redistributive programmes needed to overcome the debilitating consequences of poverty and discrimination. The causes of economic growth are varied. Above all physical capital investment is very closely related to it while expectations of growth are themselves a powerful explanation of investment behaviour. Business investment and entrepreneurship are crucial to growth but often cannot function effectively unless government financed, or led, infrastructure development and other investment play a role. Unfortunately the capital stock built up by investment can be rendered worthless by poor resource allocation.

The sources of growth are certainly not all material. Importantly it seems that relative income equality is itself growth promoting. This may be because the size of the domestic market is expanded if all household incomes fall within a certain range; because social segmentation leads to bad policies (rent seeking); and because in agriculture smaller holdings may well be more productive than larger – provided that small holders have the political influence to make sure that inputs and research are not monopolized by others. Finally, on occasion severe income inequality reflects self-defeating discrimination in education and job opportunities against certain population groups on a large scale. For these reasons direct action to improve the incomes of the working poor and overcome discrimination of all kinds will have beneficial effects on growth overall. Furthermore with good labour market functioning, high rates of employment growth should themselves shift income distribution towards greater equality and promote a virtuous circle of growth and equality.

Gender equality

The approach stresses gender equality as both a fundamental human right and as opportunity for raising incomes. Women's skills as entrepreneurs and workers are not being made best use of because of prejudice, initial unsatisfactory education opportunities or because forms of work organization and the operation of labour market institutions favour men.

The international dimension – consistent policies for employment

Finally the approach integrates the international dimension. This has many forms including targets for national action set by nations acting together globally; the interaction of policies set by richer countries with those of poorer countries; commercial and financial flows, and migration flows, linking nations; and the obligations which one set of countries has towards others.

Part II

The challenge for policy makers: Promoting change and managing change

An integrated approach to employment growth successfully taps the potential of the forces for change, and combines this with policies to manage change in a socially acceptable and non-discriminatory manner. This sets the scene for faster growth and development leading to better employment outcomes.

Promoting the forces of change

The main force for change, albeit one that can be locked up by poor government policies and liberated by good industrial relations, is *business initiative* and *higher levels of investment for the growth of enterprises*. In turn this requires good public-private sector interactions. This shows up in new investment at home or abroad, seizing new opportunities for trade and either financing new research and development or exploiting the technological innovations of others. *Trade*, in particular, is likely to be employment generating and to assist in moving the labour force to higher levels of productivity. *Foreign direct investment* is often a prime element in generating new employment through trade.

Technological innovation is indeed a potent force for change which is also disseminated by trade. Technological innovation necessarily raises productivity and frequently requires new investment. Its immediate effect when embodied in new producer goods may therefore be labour displacing. But as the current dissemination of ICT has shown this displacement certainly need not happen. Furthermore ICT has the major benefit of allowing "old economy" and not just "new economy" sectors to generate employment growth. In addition not all technological innovation requires new investment. New plant strains, for example, naturally have a research and development cost but need impose no new requirements for land and farm equipment and may be well suited to raising the income of the working poor.

A further force for change is given by a combination of *uneven demographic developments* around the world, large inter-country income disparities and increasing awareness in some countries of job opportunities in others (and the wherewithal to pay for the trip). The result is a likely need for more workers in wealthier countries, and not just for the jobs that the locals do not want, and an urge for many workers to leave poorer countries. But these features have yet to be fully weighed and a proper strategy drawn up, as discussed in the appendix.

Management of change

The management of change is an important issue for an employment strategy. Well-managed change ensures social stability and the conditions for supporting the forces of change. A first point in managing change is that *skill acquisition* should keep pace with, if not to some extent anticipate, structural change although mistakes in this respect can be costly

and wasteful. What is needed is a flexible approach to skill provision based on business needs but with access to the provision of skills available without discrimination. Another point concerns *occupational safety and health* where joint action with workers' representatives at the work place is needed both to minimize the economic cost of injuries, work related diseases etc., and to ensure that the introduction of new processes and products is accompanied by appropriate safety provisions.

Social protection is an essential element in the management of change in that it provides insurance against income loss. There is considerable scope for expanding social protection systems. But such systems are least developed for the working poor. On the other hand targeted programmes are often available but may not reach those that need them most.

Finally *labour market policies*, including labour market regulation and good industrial relations, necessarily contribute to the management of change. One criterion for looking at these policies is the extent to which they encourage job security in the enterprise and thus interact with recruitment decisions. In many developing countries, however, labour market regulation may exaggerate the role of enterprises in providing job security, and by doing so probably reduce direct hiring and encourage unregulated sub-contracting.

Policies for growth and development

If the forces making for change are actively promoted and if change is well managed so that new demands are met by a speedy supply response and new investment, in a climate of social stability and good industrial relations, then one result is an inflation-free environment with productivity growth. This in turn has the benefit of permitting a more active and expansionary macroeconomic policy stance, particularly on the financial side, without running into inflation or balance of payments problems. Elements of this have emerged in many countries in recent years with considerable benefits for employment and poverty alleviation. Effectively the NAIRU (non-accelerating inflation rate of unemployment) has been shown to be flexible downwards, something to which social dialogue has contributed.

In many developing countries the operations and capabilities of the state have been weakened seriously in recent years. Usually it was correct for the state to divest itself of responsibility for many directly productive activities. However, often the state remains without the capacity to direct research and development or to build up a trained labour force. Often it cannot enforce labour legislation and bring about non-discrimination. Rural development has frequently been neglected. Fiscal problems showing up as a lack of funds for investment or to pay good salaries are obviously a major part of the problem and resource mobilization is a crucial issue.

Second growth requires on the part of the government, in consultation with others, the foresight and caution needed to avoid economic shocks. If shocks do appear then what is needed is the ability to design counteracting policies which leave other employment inducing factors intact. Finally a healthy global economic environment is important. At heart that requires steady growth in the larger economies of the world and access to their markets on fair and transparent terms for the rest of the world.

Chapter 2

Promoting the forces of change

2.1 Introduction

This chapter reviews the main global strategies relevant to employment. It presents these strategies and discusses the relations between them and employment. Its first theme is the need for the kind of adjustment in productive sectors which is caused by trade, technology and business initiatives since these factors contribute to higher productivity and employment and thereby more prosperity. But all of this has to contend with one additional factor, namely the unsustainability of the present nature of resource depleting growth of the global economy. Shifting to a different pattern of growth is a challenge for all countries even if measures taken apparently impact first and most on the industrialized countries. In turn, attaining a path of sustainable development will become a major source of change in global production structures.

2.2 Trade and employment

Introduction

Trade stimulates economic growth by promoting specialization. Moreover it facilitates the transfer of technology across national frontiers and stimulates competition. All this contributes to the growth of productivity everywhere. In developing countries trade allows both employment and productivity growth as specialization in labour-intensive products increases the employment intensity of growth. Trade, therefore, can help developing countries absorb their surplus labour and working poor.

These possibilities, however, are not always realized in practice. Since the mid-eighties, trade flows have become progressively freer, partly because many countries have implemented trade liberalization policies and partly because improvements in transport and communications have brought down natural barriers. Yet, freer trade has not benefited all nations. The lesson is that simply freeing trade is not enough; other policy actions, at both the national and international levels, are required to ensure that the potential benefits of trade are realized in practice.

Developments

Stabilization and structural adjustment programmes as also the successful conclusion of the Uruguay Round of GATT negotiations resulted in widespread implementation of trade liberalization policies in the second half of the eighties and in the early nineties. Alongside trade liberalization, most countries also liberalized their investment regimes so as to encourage FDI flows; virtually all investment-related regulatory changes in countries across

the world during 1991-98 were in the direction of creating a more favourable environment for FDI.¹

The really striking development since 1980 has been the growth of manufactured exports from a small set of developing countries to advanced industrialized countries; the corresponding and equally striking development was that of the >marginalization< of the large majority of developing countries. The developing countries' share in world manufactured exports increased from 12 per cent in 1980 to 23 per cent in 1998², but this growth basically reflected the impressive performance of a small number of developing countries and territories that were emerging as major exporters of manufactures. Just 13 developing economies³, for example, increased their share of world manufactured exports from 9 per cent in 1980 to 19 per cent in 1998, while the share of the rest of the developing world remained stagnant at just 3 per cent. The export-GDP ratio for these 13 economies increased from 17 per cent in 1980 to 31 per cent in 1995 while, for the rest of the developing world, it declined from 31 per cent in 1980 to 26 per cent in 1995.

These developments were reinforced by the pattern of global FDI flows. Even though advanced industrialized countries have remained the main destination of FDI, the share of FDI flows going to developing countries grew steadily, from 22 per cent in 1985 to 38 per cent in 1997. But the bulk of the incremental flows went to those few developing countries which were emerging as significant exporters of manufactures. The 13 emerging economies, for example, accounted for 75 per cent of the FDI flows going to the developing world in 1997; this share was 59 per cent in 1985. The >marginalized< developing countries, particularly the least developed, received insignificant FDI flows and consequently in terms of capital inflows remained overwhelmingly dependent on official aid flows. According to UNCTAD estimates, 49 least developed countries received less than 2 per cent of global FDI flows throughout the 1990s.⁴ Another worrying trend is that FDI flows are increasingly financing cross-border mergers and acquisitions, UNCTAD estimates that the share of cross-border mergers and acquisitions in world FDI flows increased from 52 per cent in 1987 to 83 per cent in 1990.⁵

Not all >marginalized< countries are low-income countries; many are in the middle-income category and some are high-income petroleum-exporters. But they are all principally exporters of primary commodities; the share of manufactures in their merchandise exports

¹ UNCTAD, *World Investment Report, 1999*, New York and Geneva: United Nations, 1999.

² The share of the developed economies correspondingly declined from 83 per cent to 72 per cent during the same period. The share of the transition economies of Europe and Central Asia also declined, from 5 per cent in 1980 to less than 3 per cent in 1996.

³ These are: Argentina, Brazil, China, Hong Kong (China), India, Indonesia, Republic of Korea, Malaysia, Mexico, the Philippines, Singapore, Taiwan (China) and Thailand. A number of developing countries have high levels of exports of manufactures per person but their share of world exports is slight. See Ghose, Ajit K., "Trade liberalization and manufacturing employment", Employment Paper 2000/3, Geneva: ILO.

⁴ UNCTAD, *The Least Developed Countries, 2000 Report*, New York and Geneva: United Nations, 2000.

⁵ UNCTAD, *World Investment Report, 2000*, New York and Geneva: United Nations, 2000.

was less than 30 per cent even in 1996.⁶ Their ~~marginalization~~ resulted from a combination of a stagnant world demand for primary commodities and an inability to shift their export-base towards manufactures. During the eighties and the nineties, trade in manufactures, not trade in primary commodities, expanded rapidly. The share of primary commodities in world merchandise exports by value showed a fairly sharp decline, from 43 per cent in 1980 to 24 per cent in 1996. The continued overwhelming dependence on exports of primary commodities, therefore, often resulted in declining trade-GDP ratios.

Global strategies

The basic global trade strategy is to promote freer flows of goods and services, and capital, within a framework of WTO agreements. However, the need to retain limited sector- or product-specific public interventions and to allow particular exceptions in the case of less developed countries is well-recognized. Efforts to launch a new round of negotiations at the WTO Ministerial Meeting in Seattle in 1999 failed to materialise although a new round may be launched at the Ministerial Meeting in November 2001. A convergence of views is being sought on the liberalization of trade in agricultural products and in services, freer flows of FDI, appropriate protection of intellectual property rights and the prevention of abuse of anti-dumping measures, though these all still remain areas of serious controversy. A recent UN initiative to grant free access to exports from the least developed countries to advanced industrialized economies received wide endorsement at the May 2001 UN Conference on least developed economies.

The key question

To what extent can the liberalization of trade and FDI flows promote employment and productivity globally and particularly in developing countries and what international and national policies are required to strengthen these effects?

ILO response

The experience of the past two decades has given rise to widespread concern about the effects of freer flows of trade and capital on employment and wages worldwide. In advanced industrialized countries, there is a perception that freer trade is destroying jobs for unskilled workers and is increasing wage inequality (and hence overall income inequality). It is also widely felt that trade liberalization has destroyed high-quality jobs and created low-quality jobs even in the successfully integrating developing countries. These perceptions, together with the evident ~~marginalization~~ of a large number of developing countries, have generated an apprehension that globalization has triggered a ~~race to the bottom~~. The ILO has investigated the issues involved⁷ and the main findings are summarized below.

⁶ Even this figure exaggerates the importance of manufactured exports; unworked diamonds account for a large proportion of manufactured exports from many of these countries.

⁷ ILO Working Party on the Social Dimensions of the Liberalization of International Trade, *Progress report on the country studies on the social impact of globalization*, Geneva: GB. 274/WP/SDL/2, 1999; Ghose, Ajit K., *Trade liberalization, employment and global inequality*, *International Labour Review*, 119 (3), 2000; Ghose, Ajit K., *Global economic inequality and international trade*, Employment Paper 2001/12, Geneva: ILO; and ILO, *Labour and social issues relating to export processing zones*, Report for discussion at the tripartite meeting of export processing zones-operating countries, Geneva, 1998.

In the developing countries which have emerged as successful exporters of manufactures trade has encouraged employment growth both by stimulating GDP growth and by increasing its employment intensity. Unskilled (or low-skilled) workers, moreover, have tended to benefit more than skilled workers because export-oriented industries employ a higher proportion of unskilled workers than do import-competing industries. Similarly, unskilled female workers have benefited more than unskilled male workers. On the other hand, increased competition in import-competing industries has induced job losses because of restructuring, although on balance job gains have generally been larger. Real wages for all workers have usually risen. Working conditions in the export processing zones which account for much of the exports are in many ways seriously deficient. Generally, however, they allow higher earnings than do jobs in the domestic informal sector. On the whole there is little doubt that trade liberalization has had a positive impact on employment in these countries.

The 'marginalized' developing countries, of course, have not benefited in terms of growth of output and employment. In the case of these countries, trade liberalization has not been a sufficient condition for trade expansion. These countries remain overwhelmingly dependent on exports of primary commodities, the world demand for which has been stagnant. Though the stagnation reflects a long-term trend, prevailing trade restrictions on some primary commodities, particularly agricultural commodities, have also contributed to it. Many of the 'marginalized' countries lack a manufacturing base as well as the physical and social infrastructure (transport, communication, electricity, education, health, institutions of financial and labour markets, etc.) needed to support the growth of manufacturing industries. They thus lack the capacity to shift their export-base towards manufactures. In fact, increased import-competition resulting from trade liberalization has often had adverse consequences for their nascent manufacturing industries.

In the advanced industrialized countries, the growth of manufactured imports from developing economies has had only a small adverse effect on the employment of unskilled labour. Far more important adverse effects have derived from skill-biased technological change. Employment has declined in manufacturing industries in general and not just in the industries facing competition from imports from developing economies. Adverse effects could conceivably have been reduced had skill development been accorded greater priority as a labour market policy. But labour market policies were geared more to reducing the cost of unskilled labour through lower minimum wages, reduced social security payments and wage subsidies than to skill development.⁸

In sum, even though trade liberalization has had a globally positive impact on employment and wages, it is quite clear that other policies at both national and international levels are required to realise its full potential. Trade liberalization can be an effective instrument for promoting employment and labour standards in developing countries only when they have the physical and social infrastructure necessary for adjusting their production structure in response to changing demand conditions in international markets. In developed economies, the employment benefits of trade liberalization are helped by labour market policies geared to skill development.

⁸ Guy Standing, *Global Labour Flexibility: Seeking Distributive Justice*, London: MacMillan, 1999.

Policy challenges

- *In advanced industrialized countries, top priority needs to be accorded to skill development. In general, the adverse effects of trade and technological developments need to be countered through active labour market policies to enable labour displacement in a socially acceptable way rather than through restrictive trade policies or policies to reduce the cost of unskilled labour.*
- *To attract FDI countries need to develop a clear and favourable approach to enterprise development, a skilled labour force, good infrastructure and ensure political economic and institutional stability and transparency*
- *In all developing countries, labour market institutions need to be built or improved upon so as to provide support to the adversely affected workers and to generally facilitate adjustment of production structure through skill development.*
- *The growing importance of mergers and acquisitions underlines the need for international cooperation and national action in the area of competition policy.*
- *Advanced industrialized countries should allow free access to all goods and commodities produced by low-income countries including by further liberalizing trade in agricultural products.*
- *Given that liberalization of trade in agricultural products will not be sufficient because of stagnating world demand for such products developing countries need to shift their export-base from primary commodities to manufactures by developing appropriate physical infrastructure and required skills of the labour force in an export-friendly trade regime.*
- *International (official) assistance including technical cooperation activities should be intensified to help the export sector in developing countries meet the product-specific and other requirements of importing countries.*
- *The ILO calls for a strengthening of the HIPC (Heavily indebted poor countries) initiative and calls upon the donor governments to honour the commitment to provide 0.7 per cent of GNP in international aid.*

2.3 Technology and employment

Developments

Technological change has historically been a source of employment creation and an issue of prime importance today is how to ensure that the impact of the increasing use of information and communication technologies is favourable for employment⁹. Some key

⁹ The ILO's *World Employment Report 2001* is its most comprehensive analysis of the effects of ICT on the quantity, quality, and location of work. Its concluding chapter identifies policy areas of greatest

points concern the efficiency gains deriving from the use of these technologies in the Aold@ economy, the potential for greater market access that ICT use provides, particularly for small and medium-sized enterprises and the self employed, and the wealth of new service sector markets and occupations which arise in association with periods of rapid technological change. With sustained exclusion from the ICT revolution or a late start, countries affected could experience a loss of competitive strength and market share.

One characteristic of ICT has been the speed of their diffusion. But the conditions for ICT diffusion vary and are indeed unmet in many parts of the developing world, consequently “digital divides” – disparities in the access to and use of ICT – will no doubt widen. Within countries, the digital divide typically exists between young and old, male and female, the more and the less educated, the more and the less wealthy, and urban and rural locations. The 'gender divide' could widen unless it is actively addressed through better access, education and working conditions. Between countries, it is clear the diffusion of ICT has overwhelmingly been concentrated in several industrialized countries. Only 6 per cent of the world's population are Internet users, for example and 85 to 90 per cent of these are in the industrialized countries. The continent of Africa generates less than one per cent of the content of the Internet, a meagre share that declines substantially if South Africa is excluded.

In the industrialized countries it is the ICT sector itself that has been the engine of growth. For example, while accounting for little more than 6 per cent of the US work force, the ICT sector contributed 35 per cent on average to the growth of GDP in the late 1990s. Sweden is unusual among OECD countries in that over 10 per cent of the work force is employed in the ICT sector. Investment in ICT has been associated with the emergence of the “new economy”, i.e. with a simultaneous expansion of employment and labour productivity and a rise in total factor productivity. This was a characteristic of the US economy in the second part of the 1990s and the same features are appearing elsewhere.

The diffusion of ICT is associated with new patterns of job creation and job loss. Occupations associated with analog technologies, such as switchboard operators, or with routine information-handling tasks, for example have been displaced. The use of ICT in manufacturing, in particular, has boosted productivity to sometimes a dramatic degree, as in the manufacture of computer hardware. It is, however, in the service sector that ICTs' effects on employment creation have been largely concentrated. These new jobs not only include the growth of “knowledge” work – jobs whose core function involves the creation of new knowledge – but a full array of service work as well. For example, the digital transfer of information has created an expanding market in “intangible products”, such as remote data processing, and is in turn changing the international division of labour, favouring those locations that combine lower cost advantages with the availability of skills.

Global initiatives on the digital divide

As the present digital divide between wealthy and poor countries threatens to create a widening economic divide in income and access to decent work, international efforts have increased towards bridging it. Two initiatives are of particular note:

significance for the creation of employment and decent work. It is as such a contribution to the employment strategy debate surrounding these technologies.

The ICT Task Force and Trust Fund under the responsibility of ECOSOC was created in 2000 as a global clearing house of public and private initiatives directed towards expanding access to ICT in developing countries. The rationale for the Task Force's creation was that such initiatives had previously lacked adequate coordination and funding with the result that their impact remained limited. The second major initiative was the creation of the Digital Opportunities Task Force or DOT Force by the G7 heads of state in their July 2000 summit in Okinawa, which is currently being coordinated by the World Bank and UNDP. The DOT Force aims to mobilize major private sector enterprises and the international community in addressing the divide. The DOT Force works in collaboration with the ICT Task Force, and plans to start work in mid-2001 during the Genoa G7 Summit. The ILO has contributed to the DOT Force by highlighting ILO assistance to skill formation and small business creation and the role of dialogue in creating a consensus on technology policy.

Several UN agencies, including UNCTAD and the ITU have launched programmes of technical cooperation in the ICT field. UNCTAD, for example, has an AEC-DC initiative for electronic commerce for developing countries, while the ITU focus is on telecom access. The ILO has asked to be associated with several of the themes proposed for the World Summit on the Information Society, to be organized under ITU auspices.

The key question

Can the new technology be harnessed to accelerate economic development and reduce poverty; or will the pace of change widen the "digital divide" and intensify the prevalent patterns of income inequality across and within countries?

ILO response

There are grounds for optimism as to the employment creation potential of information and communication technologies. At the same time however, it is less clear what ICT portends for the quality of work and industrial relations. The independence of work from its location can be quite liberating for workers, and allow them to strike a better, more satisfying balance between market and non-market pursuits. The diffusion of ICT is also consistent with the growing importance of the knowledge economy, often associated with more intrinsically satisfying work, and work that is more evenly distributed between the sexes. On the other hand, ICT are associated with the intensification of competitive pressures at the work place, higher levels of stress, and increased invasion of privacy through electronic monitoring

There are robust grounds for believing that access to ICT is becoming easier. First, it has been observed that the computing power of the microchip doubles every 18 to 24 months through the miniaturization of circuitry. Second, the substitution of fibre optic cable for copper wire allows greater speed and capacity (bandwidth), all leading to lower costs. In addition mobile telephony - enhanced in years to come with Internet access - will increasingly substitute for older and more expensive telecom systems. There is also a strong correlation between national income and the extent to which mobile telephony substitutes for, rather than complements fixed-wire telecom. Poorer countries use mobiles more. This is not to argue that costs no longer matter, as that would trivialize the significant constraints faced by developing countries. However, it suggests that there are policy solutions available to ease the problem of costs.

But currently, the cost of a local phone call and Internet provision in many poor countries is higher in absolute - and therefore even more in relative terms, than in many industrialized countries. One reason for the higher costs in developing countries is the imbalance that places non-US Internet Service Providers (ISPs) at a cost disadvantage. The ITU and the OECD, are currently studying whether cost arrangements are equitable. But a major reason is telecommunications policy. In many developing countries, the national telecom provider has a monopoly position providing a substantial source of revenue. Between 1990 and 1998, more than ninety developing countries opened up their telecom monopolies to private-sector participation. In many instances, however, this merely transferred some ownership without substantially increasing competition.

The beneficial consequences of affordable ICT on employment in developing countries arise through four main channels. First, it can ease developing countries' participation in global value chains and encourage greater outsourcing from enterprises in industrialized countries. Second, ubiquitous access to market information could allow small enterprises broader market reach or access and market knowledge than they currently have. Third, use of communications is a source of domestic employment creation, as through the 6,000 private telecentres created in Senegal in the 1990s. Fourth, and arguably the most significant source of labour market consequences, the use of ICT changes structures and boosts productivity in "old economy" industries, leading to faster growth.

ICT can be made more relevant to the objective of poverty alleviation through its effect on economic growth and also by improving access to health care, education and other social services. Public and/or private assistance to community-based organizations to provide access tailored to the needs of poor persons is one place to begin (see Box 2.1).

Box 2.1: Community-based access to Internet

Senegal: Growth of private telecentres¹

In response to growing demand, the government in 1995 liberalized its policy regarding the setting up of private telecentres – anyone can now own a telecentre on condition that the telephone line subscription is paid to Sonatel, the public telecommunications company. The private telecentres offer access to telephones, faxes photocopiers and PCs equipped with word-processing software and Internet access. This equipment is owned or rented by the telecentre owner, who can charge up to 75 per cent above the official telecommunication rate. Telecentre owners can earn income from their services (US\$1,600) almost three times the country's per capita income.

Internet kiosks in rural Maharashtra²

Warana Nagar, in rural Maharashtra, is a rural network project. The district includes 70 village and is known for the strength of its cooperative societies. Villagers are using "facilitation booths" to access agricultural, medical and educational information on the Internet. The technology includes 10 computer servers, two very small aperture terminals (VSATs), about 165 personal computers. Each of these village has an Internet kiosk.

¹ P. Fuchs. *Little engines that did –Case histories from the Global Telecentre Movement*, IDRC Study/Acacia Initiative (Ottawa: IDC, 1998) at <http://www.idrc.ca/acacia/engine/eng8.htm>.

² "Getting wired – the Waranara way", in *Business World*, 22 February-6 March 1999, pp. 72-73.

At present, it is more than likely that the digital divide will widen and that many benefits of innovation will accrue to richer countries. The contours of this widening, moreover, are likely to be more diverse than a simple division between developed and developing countries. The division of labour could become more segmented on the basis of education and skills. Investments in education take time, of course, and today's technology leaders are likely to remain in the lead for some time. This, in turn, makes the issue of technology transfer an important concern. Technology transfer is of rising policy importance in a world in which a growing share of all R&D spending is private. Ironically, as the communications revolution greatly expands access to information, the amount of information of commercial value that is in private hands is also on the rise.

Nonetheless many recent innovations in digital products, ranging from graphical interfaces to messaging systems, have been developed outside the advanced industrialized world, in Mexico, Israel, or Hungary, for example. In ten years' time the internet is likely to be a far more multi-lingual and multi-cultural. Such diversity could be a spur to the more even diffusion of employment-creating innovation. But while *all* participation in global ICT markets is dependent upon a skill base, which skills are appropriate depends on the market niche sought. Countries such as Costa Rica, have been able to leapfrog lower skilled, lower value-added entry points and proceed directly to more profitable niches. India, for example, has been able to enter international markets at different skill-specific entry points and this may be the most effective way to maximize employment creation. However, jobs that are created at lower ends of the occupational hierarchy may be more vulnerable to competition (see Box 2.2).

Box 2.2: ICT, jobs, and development: Costa Rica, Ghana, and India demonstrate the policy basics

In contrast to the stark reality of a widening digital divide is the substantial potential that information and communication technologies hold for development. While ICT cannot substitute for development, one key way in which it can contribute to and perhaps even accelerate development is through the kind and number of jobs it creates.

Developing countries that have successfully engaged the information economy have increased their participation in global value chains, have created domestic jobs using ICT, or have been able to "leapfrog" lower value-added niches in global product markets. The significance of each, whether alone or in combination, is demonstrated with reference to the experience of Costa Rica, Ghana, and India.

Costa Rica: As a consequence of its highly educated workforce, Costa Rica was able to attract the semiconductor company, INTEL, to the country in the late 1990s. In addition to the 2,500 jobs created as a result, the effects have also been to boost export revenue and GDP growth in 1998 and 1999. ACER established a customer services facility employing 600 in the free-zone area, and the country also boasts a dynamic software industry. In mid-2000, the 50 leading software companies in the country employed more than 1,500 persons with estimated total exports of \$1,500 million. Rather than inching up the scale of industrial value-added, it is arguable that Costa Rica, because of educated and literate workforce, has been able to "leapfrog" or bypass lower skilled and lower value-added entry points into global markets.

Ghana: Ghana is one country that has addressed the constraints on telecom access and affordability. First, Ghana Telecom was created in 1995 as a successor to the national telecom monopoly, and then privatized in 1996. Then, a second national operating license to a new, independent provider, WESTEL. The result is that a higher share of government agencies is computerized and ICT penetration is greater among Ghanaian businesses and other organizations than in most other African countries. Policy foresight has played a role in encouraging "connectivity". Both the country's Accelerated Development Program (ADP 2000) as well as the Ghana Vision 2020 programme acknowledge the importance of ICT to future social and economic development. This is a promising start, although additional needs remain, such as that for greater policy coherence and integration, and that of overcoming bottlenecks in physical infrastructure and skill development.

India: With exports of US\$ 4 billion in 2000, projected to rise within the year to US\$ 6 billion, total revenues in the Indian software industry are expected to increase nine-fold, to US\$ 9 billion, from their 1994 level. National government policy has been critical in this growth. For example, the Software Technology Parks set up by the Government have ensured access to improved communications links for both established and fledgling businesses. Trade policy has also adjusted to ease constraints on ICT imports needed to expand software exports. The growth in export volume, moreover, also reflects an increase in the sophistication and value-added of the software products produced. Undergirding the Indian success is a longstanding focus on education: India's science and engineering, and technical institutes produce tens of thousands of graduates annually, ensuring a highly qualified labour supply for the continued growth of the software industry – the ambition of which is to attain an export volume of US\$ 50 billion by 2008. At the low end of the skills spectrum, the spread of mobile telephony and telecentres has provided earnings opportunities to over 600,000 Indians, many of whom, women, in the past decade. Participation in other than the most sophisticated global value chains has created thousands of other jobs as well. An estimated 250,000 Indians, for example, work in the data-entry and processing sector. The Indian example demonstrates a multiple-paths (walking on two legs) approach for participation in the global information economy.

Policy challenges

- *ICT are relevant to all countries irrespective of their level of economic development. All governments need to adopt policies towards the technology revolution, since not to do so is to run the risk of marginalization.*
- *The quality of education is more important than ever. Digital literacy is essential but there remains an order of priorities in which literacy and access to basic education of high quality are most fundamental.*

- *Securing an initial niche in “intangible” product markets is possible with basic skills. Moving up to higher value-added production and broadening the use of ICT in the domestic economy will require investment in knowledge of software skills. Developing countries which can acquire higher level ICT skills can therefore aim at a strategy of “walking on two legs” by tapping both ends of the market – thus increasing total value-added in ICT products as well as employing more workers in the sector.*
- *An ICT “gender divide” exists and could widen in the labour market unless actively addressed through better access, education, and working conditions.*
- *ICT can be made more relevant to the objective of poverty alleviation through their effect on economic growth, but also improving access to health care, education and other social services. Public and/or private assistance to community-based organizations to provide access tailored to the needs of poor persons is one place to begin.*
- *Promoting access and use of ICT begins with ensuring a more competitive and lower cost telecom sector.*
- *Existing laws and policies may need to be reviewed as new work place concerns are arising - stress, privacy, intellectual property, right of access to communications media.*
- *International migration can only be a partial solution to the problem of skill shortages. Countries that receive migrant workers should not neglect the training of the domestic workforce, and the countries of migrant workers’ origin need to think of policies to encourage the retention or return of their high skilled workers from abroad.*

2.4 Entrepreneurship and job growth

Developments

A business environment that encourages enterprises to start up and grow is essential to a thriving economy. Furthermore several key trends of today’s global economy sharpen the need for entrepreneurship and continuous enterprise upgrading. These include the universal move towards liberalisation of product and financial markets; the rapid advance of technologies and shortened product life-cycles that drive innovation and enterprise turnover; and global production chains within which individual producers and local industry clusters must constantly restructure themselves to keep pace with the competitive requirements of very dynamic markets. Even small enterprises increasingly find that their prospects hinge on becoming more productive and competitive in world markets.

Despite globalization, small enterprises increasingly account for most jobs. For example, in Latin America in the 1990s, only one third of net job gains in private-sector urban employment was in enterprises with more than 20 workers. However, the share of

employment growth outside of the larger enterprises in self-employment (29 per cent) was much the same as that as in micro and small enterprises (30 per cent), suggesting that much of this growth was in the least productive, lowest earnings activities.

Small enterprises' contributions to countries' economic output typically lag substantially behind their share of employment. Data for a handful of Southeast Asia countries show that small manufacturers' share of value added can be half, or even less, their share of employment, implying vast differentials in productivity between smaller and larger enterprises. Low levels of enterprise productivity translate directly into lower real incomes for workers.

Global strategies

A number of international strategies and initiatives are promoting the role of enterprises in creating quality employment. The Micro Credit Summit campaign and similar global initiatives are promoting access to credit for micro enterprises. UNCTAD continues to bring developed and developing countries together around a common global agenda; its recent LDC conferences have featured private sector development and women's entrepreneurship. The OECD's Bologna Charter 2000 and action plan on women's entrepreneurship are intended to guide member countries' own policies and their assistance to developing countries. The UN Youth Policy Network (a partnership between the UN, the World Bank, the ILO and the private sector) has a significant youth entrepreneurship component that is intended to foster national level action programmes. The Donor Committee for Small Enterprise Development brings together most major donor agencies to promote concerted action and the promotion of good practice in the small enterprise development field. WIEGO (women in informal employment: globalizing and organizing) is establishing an international platform for informal sector organizations such as StreetNet (international network of street vendor organizations) and HomeNet (international network of homeworkers' organizations). The International Cooperative Alliance (ICA), representing 800 million cooperative members in over 100 countries, aims at enhancing the role of cooperatives as enterprises that combine productivity and competitiveness with social objectives, thereby making them unique vehicles for quality job creation.

Corporate codes of conduct have grown more important over the last decade, most obviously to maintain corporate and brand images, but also out of a growing recognition of the benefits to firms of working closely with their communities, improving stakeholder dialogue and valuing their employees. The UN Global Compact is based on guidelines resulting from corporate initiatives.

The key question

What global and national public policies can provide a good climate for entrepreneurship, growth of employment in SMEs and decent work?

ILO response

In many parts of the world, policy and regulatory environments are often not favourable to enterprise growth and development, and may even be seriously biased against micro and small enterprises. Often the small-scale enterprise sector is also held back by a

lack of access to product markets, capital, training, skilled workers, and information. Good overall economic policies remove these distortions.

Creating favourable conditions for small enterprise development (SED) begins with assessing the incentives and disincentives that economic policies may create, perhaps unintentionally, for smaller businesses. Small enterprises must be able to be profitable and competitive. The first step, then, is to examine policies that do not specifically target SED but may affect it, such as fiscal and monetary policies, trade regimes, education and training, social protection, gender equality, and occupational safety and health. Particular attention is needed on the impact of structural adjustment programmes, which can raise interest rates and change the operation of financial institutions, and on taxation. It is necessary to provide effective labour laws and regulations to raise the quality of employment in SMEs and ensure compliance with international labour standards

Removing constraints on the development and growth of efficient and competitive SMEs requires attention to a wide swath of policy areas particularly those arising from difficult access to credit and other financial markets, low levels of technical and managerial skills, insufficient access to markets, inappropriate or overly burdensome registration, licensing and other administrative requirements, and discriminatory practices regarding access to public and private procurement opportunities. Policies need to support the creation of diversified financial institutions and services, addressing specifically the requirements of small customers in urban and rural areas. SME's access to finance and credit should be facilitated on commercial terms, rather than subsidised through government or donor programmes. Supplementary measures should be undertaken to simplify administrative procedures, reduce transaction costs and overcome problems related to inadequate collateral. SMEs may also be encouraged to organize and participate in mutual guarantee associations. The creation of venture capital and other organizations specializing in assistance to innovative SMEs should be encouraged. In all this women entrepreneurs, who are playing a fast increasing role in the development of new business (in the US women are establishing new businesses at twice the rate of men) need to be kept in mind. They may encounter discrimination as regards credit, acceptable collateral and market access

The business regulation framework must seek to lower the costs to establish and operate a small business (easier registration procedures, reasonable and fair taxation) and increase the potential benefits of legal registration (access to commercial buyers in the formal sector, more favourable credit markets, legal protection, obtaining foreign exchange). This encourages business starts and helps lever smaller businesses into the formal economy. Administrative requirements, such as registration and licensing, can become an obstacle to smaller enterprises, where costs of compliance per employee (or per managerial staff members) are higher than in larger firms. Where the costs of full administrative compliance are prohibitive, as in de Soto's¹⁰ well-known illustration that it could take a small business 289 days to complete all the formalities necessary to start a business in Peru, compliance is low. Compliance would increase and administrative costs decrease by reducing regulatory requirements to a minimum and then vigorously enforcing them.

Education and training can be important tools in entrepreneurship development, especially in combining vocational training with business awareness and management training. Encouraging a more positive attitude towards appropriate risk-taking includes

¹⁰ H. de Soto, *The other path: The invisible revolution in the Third World*, New York, Harper and Row, 1989.

recognising business failure as a learning experience, while acknowledging its impact both on entrepreneurs and workers. Awareness campaigns to promote good industrial relations, contract enforcement, workers' rights, better working conditions, higher productivity and improved quality of goods and services should be developed. This would complement the promotion of entrepreneurial role models and award schemes, especially those that acknowledge the contributions of women, and of disadvantaged and marginalized groups.

Workers in smaller enterprises the world over rarely enjoy the same level of protection as their counterparts in larger ones. The pillars of social protection have traditionally been associated with employment in larger-sized enterprises, such as eligibility for social security schemes, freedom of association, effective voice in the workplace, training, and public oversight to guard against hazardous working conditions and discrimination. In Chile, for example, workers in the smallest enterprises are about half as likely to have the protection of a written work contract, contribute to a pension fund or receive training from their employers as are those in larger enterprises. Workers in the urban informal sector throughout Latin America typically earn only half as much as workers in the modern sector, while working longer hours on average.

One task of the enterprise is to build the human and social capital essential for sustained productivity improvement through good workplace practices. Such practices are all based on the same principles that lead to decent work: involvement, participation and dialogue; labour-management partnership; respect and recognition; sharing the gains of productivity improvements; skills development and providing good working conditions. Documented studies of decent work oriented workplace practices show that they are good for business.

Strategies to upgrade enterprise productivity and job quality begin at the enterprise level by demonstrating the many ways in which observance of labour standards is positively linked to business performance and long-term competitiveness. Modest improvements – in working conditions, material management and waste reduction, basic safety measures, better human relations management – quickly produce tangible results for productivity and profits. In this context, social dialogue fosters long-term productivity growth, competitiveness and innovation. This partnership approach includes not just good labour-management relations at the enterprise level, and the traditional social partners at national level, but also other stakeholders, e.g. the host community and local government.

Box 2.3: Decent work is good for productivity and for the bottom-line

- A study of 138 locally-owned or foreign affiliate South Korean firms (Bae and Lawler, 2000) found strong positive links between high involvement human resource management strategies (high employee participation, extensive training programme and broad job design) and firms' competitive advantage (product differentiation and speed) as well as over-all business performance (return on invested capital).
- Observance of equality and non-discrimination is also good for business. Perotin and Robinson (2000) found a positive overall association between equal opportunities policies and the productivity of the establishments in their analysis of enterprise data from Australia. The joint existence of employee participation and equal opportunities schemes is generally associated with productivity advantage over and above the separate effects of the two types of policies.

Source: Bae, J.S. and Lawles, J. (2000). "Organizational and HRM strategies in Korea. Impact of firm's performance in an emerging economy" *Academy of Management Journal* 2000, Vol. 43, No. 3. Perotin, V. and Robinson, A. (2000). "Employee participation and equal opportunities practices: Productivity effect and potential complementarities", *British Journal of Industrial Relations*, Dec. 2000.

In addressing job quality concerns at the level of the enterprise – whether directly or through their relationships to larger enterprises – it is important to take account of workers’ own concerns and priorities. Improving job quality must be done in a way that does not seem to jeopardise their very livelihood. ILO surveys conducted of both employers and workers in micro enterprises in India, for example, revealed that the workers consider the survival of their enterprise far more important than improving their own working conditions. This concern illustrates, again, the importance of assuring workers’ own voice in efforts aiming at improving their working lives. It also shows the lack of awareness on the part of both workers and owners of the potential for improving business performance through better quality of work and thus the need for good examples to follow. The box sets out the ILO response to this issue.

Box 2.4: Job quality and productivity along the Supply Chain

In the brassware industry in India, the more than 25,000 small and household units micro and small enterprises in Moradabad contribute as much as 70 per cent output, often under extremely harsh and unsafe working conditions. They are subcontracted for specific jobs by larger workshops, which in turn receive contracts from manufacturer exporters. Productivity is very low and, despite industry-wide growth, the smaller household units operate mainly at the subsistence level. At the same time, low costs and low working conditions hardly guarantee that even this measure of employment is sustainable because the low productivity threatens the traditional comparative advantage that the region has enjoyed.

The ILO response aims to improve productivity by improving job quality in these micro and small enterprises. At the level of the small producer, specific training demonstrates the impact which low-cost improvements in the working environment and modern business management can have on product quality and productivity. But the comprehensive approach also includes efforts aimed at improving the regulatory environment through more effective social participation, encouraging social responsibility through partnership with the larger enterprises, and collaborative means of accessing new technologies.

Policy challenges

- *Create a conducive environment for entrepreneurship and business growth with particular attention to economic policies affecting inflation, interest and exchange rates, taxation, employment and social stability, and appropriate laws for property rights, location of enterprises, enforcement of contracts and fair competition.*
- *Remove constraints to the development and growth of efficient and competitive SMEs including difficulties of access to credit and capital markets, lack of transport and communications infrastructure, inappropriate, inadequate or overly burdensome registration, licensing, reporting and other administrative requirement.*
- *Encourage entrepreneurs and workers in SMEs to be adequately represented and engage the sector in social dialogue, particularly with respect to the development of a conducive environment.*
- *Develop entrepreneurial attitudes and culture through education and training policies, programmes and vocational curricula.*
- *Facilitate access to appropriate and self-sustainable business development services in such areas as start-up and development assistance, technical and managerial skills training, and access to markets and information.*

- *Raise work place practices in SMEs by demonstrating how businesses can improve productivity and access to new markets through job quality, improved health and safety at work, and access to basic social services.*
- *Promote women's entrepreneurship through assuring access to training in basic business skills and market opportunities in non-traditional sectors, overcoming specific constraints in such areas access to credit, aiding networking and associations of women entrepreneurs, and increasing the visibility of women entrepreneurs within their communities as role models and mentors.*

2.5 A change that must come: Sustainable development for employment

Developments

The World Summit on Sustainable Development (Rio+10) to be held in South Africa in 2002 will focus on ensuring “a balance between economic development, social development and environmental protection as these are interdependent and mutually reinforcing components of sustainable development”. The ILO will assist in shaping a new strategy for sustainable development by clarifying the issues of employment and promoting social dialogue as the means to make new forms of work acceptable.

Three priority areas of focus for national and international action are:-

- \$ *Agriculture.* A key challenge in the 21st century is the provision of sufficient and safe food and other agricultural products to meet the needs of the world population, while ensuring environmental sustainability. At the beginning of the 21st century, almost 800 million people still go hungry in the developing countries and some 30 million in other countries. 1.5 billion additional people will be on the planet by 2020, almost all in poorer developing countries. In parallel with the growing world population, the natural fertility of agricultural soil is generally declining, and nearly 40 per cent of the world's agricultural land is seriously degraded. Not surprisingly this accentuates rural poverty. Agriculture is a major consumer of water, and dependency on pesticides has not diminished. Current farming methods are a major source of pollution to air, soil and water, and a major cause of biodiversity loss, hence the need for new production techniques. Overall, eco-efficiency in agriculture has improved only slightly since 1990. Organic farming is growing at a high speed, but it still represents not more than 1-2 per cent of world production. Similar issues are equally pressing in fishing and forestry.
- \$ *Energy.* Economic growth and employment are strongly linked to increased energy consumption. Global energy use has risen nearly 70 per cent since 1971. The main problem is not the use of energy but the concentration on fossil fuels with serious effects on the air, the atmosphere and the climate. Such fuels supply roughly 90 per cent of the world's commercial energy and energy related emissions account for more than 80 per cent of the carbon dioxide released into the atmosphere each year. According to the IAEA, by 2010 global energy consumption - and annual CO₂

emissions **B** will have risen by almost 50 per cent from 1993. Global warming is a reality and a serious threat to human life. Concentrations of greenhouse gases in the atmosphere have led to an increase in average temperatures by 0.5 per cent over the past 50 years. Current simulations suggest an additional temperature increase in the range of 1.4-5.8 degrees by 2100.

§ *Transport.* Providing people and enterprises with good transport services is a prerequisite for employment and continued economic prosperity. Today's transport systems allow more people than ever to move around with relative ease at affordable prices. However, current patterns of transportation are not sustainable and may compound both environmental and health problems. Transportation of all types already accounts for more than one quarter of the world's commercial energy use. Motor vehicles account for nearly 80 per cent of all transport related energy. Vehicles are the major source of urban air pollution and of green house gas emissions. Currently, the transport sector consumes about half of the world's oil production, the bulk of it as motor fuel. That makes the rapid increase in the global transport sector, particularly the world's vehicle fleet, a real concern. The fleet has increased from 70 million cars in 1950 to 630 million in 1994 and 750 million in 2000. There is a growth of 16 million vehicles per year. If this kind of linear growth continues, there will be, by the year 2025, well over 1 billion vehicles on the world's roads. The traditional approach of environmental regulation, such as setting vehicle and fuel standards, has resulted in significant improvements. But much of the gain is rapidly being outweighed by growing transport volumes, particularly private car transport and aviation, and by the introduction of heavier and more powerful vehicles. This is the background to serious efforts by public authorities and the industry to introduce new technologies to reduce the linkage between transport and economic growth

Global strategies: The UN Framework Convention on Climate Change

The United Nations Conference on Environment and Development in Rio 1992 agreed to a Framework Convention on Climate Change and the Convention on Biological Diversity; endorsed the Rio Declaration and the Forest Principles; and adopted Agenda 21, a plan for achieving sustainable development in the 21st century. The Commission on Sustainable Development (CSD) was created in December 1992 to ensure effective follow-up of UNCED; to monitor and report on implementation of the Earth Summit agreements at the local, national, regional and international levels. The Special Session of the General Assembly held in June 1997 adopted a comprehensive document entitled Programme for the Further Implementation of Agenda 21. A deadline was set for developing national sustainable development strategies by 2002. However, less than one third of the countries of the world have produced such strategies so far.

The next comprehensive review and assessment of progress will take place in 2002, and will be focussed on further development of a strategy for sustainable development. The UN Commission on Sustainable Development has invited early preparations at the local, national and regional levels. Regional preparatory meetings are expected to take place in the period from March 2001 till November 2001 undertaking two main tasks; (1) to undertake a regional assessment of progress, (2) to formulate regional platforms which would outline key policy issues, priorities and follow up actions. The UN Commission has the ambition to give more emphasis to economic and social aspects of sustainable development.

The key question

What are the implications of a shift in farming, forestry and fishing methods and in industrial technologies, particularly in the energy and transport sectors, for labour markets and for overall development?

ILO response

Reversing the loss of environmental resources by 2015 will require large scale investment to replace the technologies currently in use that embody the unsustainable use of natural resources, pollution, increasingly damaging climate change and the destruction of natural habitats. Systems of production and products themselves will change requiring considerable adjustment of the structure of employment and the skills of the global workforce. The investment required is a major potential source of productivity and employment growth, albeit on the basis of a substantially changed framework of incentives and disincentives for the use of natural resources, capital and labour.

The ILO is uniquely well-placed to build the linkages between the scope for productivity improvement through the new investment needed to reverse the loss of environmental resources and the need to work for the high levels of employment required to alleviate poverty and provide the basis for a steadily improving quality of life for all the world's citizens. Important dimensions of an ILO strategy for sustainable decent work include international sectoral social dialogue in key sectors, active labour market policies that anticipate the shifts in the skill composition of the workforce and increased occupational and geographical mobility.

The ILO's approach to enlarging our understanding of how to integrate the concept of sustainability across the economic, social and environmental fields of action will encompass research and policy options on the implications for employment change in terms of sectors and skills, and the mechanisms that governments and the social partners will need to anticipate and plan the transition to sustainable development. The objective is to assure constructive interaction between policy makers charged with maximising full, productive and freely chosen employment and those focussed on the environmental targets of national sustainable development strategies. A failure to integrate economic, social and employment considerations with environmental actions could have serious consequences for human development and particularly the world's poorest.

Policy challenges

- *Improve the mechanisms for policy integration so that opportunities for productive employment arising from environmental initiatives are identified and enlarged, at the same time as unsustainable production and employment practices are phased out.*
- *Conduct research and awareness building on the consequences for employment of new systems of production that will evolve from changes in the regulatory environment, including fiscal regimes, aimed at meeting environmental targets.*

- *Undertake practical examination of the scope for extending systems to minimise hazards at work to include sustainability targets and the dissemination of best practices on mechanisms for policy integration.*
- *Promote information exchange and social dialogue around the challenges companies and workers face in moving towards sustainability. Many companies, in some cases stimulated by the UN Secretary-General's Global compact initiative, are adopting voluntary instruments addressing social and environmental responsibility. Exchange of experience on such codes would add to understanding of the scope for action along the supply chains of the global economy.*
- *Ensure that employment strategies contribute to the international goals of environmental protection side by side with those for development and the achievement of robust, stable and equitable growth.*

Chapter 3

Management of change: Social dialogue and social responsibility

3.1 Introduction

Well-managed change is an essential element of equitable development. It is likely to require a mixture of direction, dialogue and negotiation and of appeals to enlightened self-interest. The implications of change for employment have to be managed within the labour market, whatever its origin, i.e. whether change arises from different demographic patterns leading to migration flows or from initiatives to achieve environmental sustainability. Where representative institutions exist and are well equipped with skills and legitimacy, change can naturally be handled more effectively and at less frictional cost, above all in terms of unemployment and poverty.

It cannot be overemphasized that popular participation, free media, the rule of law and respect for minority rights are absolutely essential in this process. If there are to be losers, as is likely at least in the short term, they should not be automatically those least able to help themselves. But such considerations must be acted on now, not later.

In this chapter we stress the areas of skills development and training; better administration and coverage of social protection; greater attention to issues of health and safety; and negotiation and regulation in the labour market.

3.2 Knowledge and skills for employment

Introduction

By making *individuals* employable, education and training help them gain access to decent work and escape poverty and marginalization. Education and training also improve individuals' productivity and income earning opportunities at work, their mobility in the labour market and widen their choice of career opportunities. By investing in their human resources, *enterprises* are able to improve productivity, and compete successfully in increasingly integrated world markets. However, reaping the benefits of training in terms of improved productivity can depend a lot on the strength and operation of the system of industrial relations and on the choice of compatible systems of production, work, recruitment and compensation.

Developments

School enrolment varies widely between rich and poor countries. Enrolments in high-income countries in primary education is universal; in secondary education, almost universal; and in tertiary education is approaching 50 per cent of the relevant age group. Some 98 per

cent of the adult population in these countries are literate. By contrast, in the least developed countries, primary education enrolments were in 1997 some 71.5 per cent, secondary education enrolments 16.4 per cent and tertiary education enrolments a mere 3.2 per cent (UNESCO, 2000). Basic literacy, an essential requirement for employability and access to decent work in today's world, eludes as many as 40 per cent of adults in sub-Saharan Africa and almost half the adult population in Southern Asia. Indeed, the absolute number in this situation increased in the 1990s. Women are nearly always worse affected than men. Advanced countries invest at least 20 times more per student in education and training than the least developed countries. However, basic and secondary education enrolment is rising worldwide - sub-Saharan Africa being a significant exception; in that region enrolments in primary education declined from 59 per cent in 1980 to 51 per cent in 1992 (WB: Education Sector Strategy, 1999). But, in general, as stressed in the scenarios, the education endowment of new labour force entrants will rise substantially. None the less some 113 million children are not in primary education.

Major forces driving changes in the world of work, such as globalization and rapid advances in technology, have several important implications for skills demand and human resources development and training. Firstly, the use of new technologies, especially ICT, new manufacturing processes and new modes of work organization have increased the demand for higher skills. But education and training systems are struggling to keep up. This constantly changing situation means a continued skills gap. In the United States, for example, out of 1.6 million ICT jobs expected to be created in 2000, it was estimated that 800,000 could not be filled by appropriately skilled workers. In the EU, the estimated shortage of skilled workers is expected to rise from around 500,000 in 2000 to 1.6 million in 2002. In the developed countries, there has generally been a reduction in the demand for unskilled labour and a rise in the market value of advanced skills and workplace competencies.

Secondly, growing international competition from lower cost competitors is forcing domestic firms to adopt more efficient technologies and modes of production. In Thailand a study of training in small and medium enterprises (SMEs) found that export-driven companies were faced with the same challenges as SMEs in Europe - the need to achieve an international quality recognition benchmark such as ISO 9000 with its corresponding implications for skill development and training. Global exposure also brings an opportunity to learn from competitors and to improve the organisation of work, provided that the workforce is adequately educated and trained. A problem for many small and medium-sized firms, however, is that they have only limited capacity to correct their skills shortages. They often try to hire workers away from other companies in related fields, which results in companies trying to outbid one another instead of cooperating to raise the overall number of skilled workers.

Thirdly, many enterprises are introducing new organisational and workplace practices. These so-called high performance work organizations tend to include flatter hierarchical structures, a growing emphasis on teamwork by workers with a solid general education supplemented by specialised multiple skills developed through continuous learning, often at work; self-managed work teams; frequent communication of business information throughout the organization; and, where possible, a commitment to employment security.

However, the downside of all these developments has often been a polarisation in the labour markets of both industrialized and developing countries. High performance work organizations only reach a small segment of the workforce, even in the advanced economies.

Marginalization and social exclusion threaten many people with only poor education and skills. In many developing countries, particularly in those with little or no economic growth, the bulk of the rapidly expanding labour force is, by necessity, absorbed in the informal sector, where, with few skills, they are bound to eke out a meagre living in low productivity work. Thus a dual challenge for education and training arises in all countries. On the one hand, education and training should develop and harness the knowledge and abilities of individuals to seize the opportunities that globalization and the opening up of markets can offer. On the other hand, education and training have a social function to ensure people access to opportunities for education and training.

Global and regional strategies

International agencies are supporting countries in their efforts of education and training system reform. UNESCO's Education for All Forum in Dakar in 2000 called on all countries to commit themselves to education for all with goals and targets for every citizen and for every society. The targets set include: a 50 per cent improvement in adult literacy by 2015, especially for women, and equitable access to basic and continuing education for all adults; universal access to primary education for all children by 2015; and elimination of gender disparities in primary and secondary education by 2005. National, regional and international mechanisms are being galvanized for advocacy, resource mobilization and knowledge generation and sharing. The ILO is supporting these efforts by: (i) advocating the key role of basic education in laying the foundations of an individual's employability, in the context of the new ILO Human Resources Development Recommendation; and (ii) strengthening its collaboration with UNESCO and its International Centre for Technical and Vocational Education and Training in promoting access of adults and youth to employment through the creation of opportunities for skills and knowledge development.

Education is central to the World Bank's agenda. The long-term goal of the World Bank's Education Strategy is to ensure that everyone completes basic education, acquires foundation skills and has further opportunities to learn advanced skills throughout their life. After a fall in the volume of lending for vocational training in the late 1980s, due to a new emphasis on primary education and a questioning of traditional approaches to training, annual lending increased again to just under US\$ 400 million in 1995-98. However, this is only a small percentage of the Bank's total educational lending. The bulk goes to primary education (more than 30 per cent) and to secondary education (some 20 per cent).

The Lisbon European Council - An Agenda for Economic and Social Renewal for Europe, presented at the Special European Council in Lisbon, in 2000, saw employment as a major challenge and called on countries to reorient their policies to capture the benefits of the new knowledge-based society. The Council stressed that education and training was **A**the best investment for the knowledge economy@. The Council set clear targets for employment and education, including: all schools to be connected to the Internet by 2001; digital literacy skills for all school leavers by 2003, and for all workers by 2005.

The key question

What policies and measures can be developed, by governments and the social partners, to encourage enterprises and individuals to invest more in knowledge and skills in order to improve productivity and competitiveness and facilitate employability through lifelong learning?

ILO response

Many countries, both industrialized and developing, have embarked upon a range of education and training policy and system reforms to address the challenges of promoting employability, productivity and social inclusion. Many of these reforms have a solid base in social dialogue. These reforms endeavour to improve the relevance, effectiveness and equity outcomes of education and training. They also aim at increasing investment in training by all parties concerned, in particular the private sector and individuals themselves. These reforms target the systems of general education, the systems of vocational education and initial training and the (nascent) systems of further education and training and lifelong learning. Countries need to establish policies that lay a solid foundation for employability, e.g. by instilling **Acore skills@** (e.g. ability to identify, analyse and solve problems, the capacity to learn to learn, social and citizenship skills, etc.). These core skills are prerequisites for acquiring advanced skills and for making use of new technologies.

Box 3.1: Reforming the systems of vocational education and initial training

Despite some successful reforms, such as those in Australia, Chile and South Africa, reforming national vocational education and training systems is proving to be very difficult. The major challenge is for the national systems to be flexible and responsive to the needs of the local labour market while developing the knowledge and skills to enable the workforce to compete in the global economy. A particular problem that these reforms have addressed, with varying success, is the emphasis that should be placed on general academic education and the development of transferable skills on the one hand, and on occupationally oriented training on the other, in order to facilitate the smooth transition from school to work and enhance employability. Many countries have also integrated workplace-based learning and training into the vocational education curriculum. Germany is perhaps the best example of this approach. Australia, Chile and Sweden have introduced competitive bidding among public and private training providers in order to encourage them to improve the efficiency, quality and labour market relevance of their training programmes.

A major feature of education and training reforms should be sharing responsibilities for investing in education and training and, in particular, lifelong learning, through various forms of partnerships between the state, the social partners, individuals and other stakeholders. The state has to assume primary responsibility for basic education and to promote equal opportunities in training by targeting women, young people, older workers, people with disabilities and otherwise contributing to overcoming discrimination. The private sector needs to assume a greater share of the burden of financing the workplace and lifelong learning needs of their staff. Where feasible, the individual worker should be asked to assume a greater responsibility for her or his self-development and be helped by the appropriate workers' organization. Access to lifelong learning opportunities has particular significance for women, who, more than men, are likely to leave and re-enter the workforce at different stages in their life cycle. The ILO is developing a database on current expenditures on vocational and continuing training, and a series of benchmarks on investment in training, differentiated by different regions of the world, size of companies and sector of industry. This will allow the ILO to advocate useful investments in skills and knowledge and promote them through technical cooperation.

A common difficulty for training reform is to achieve adequate investment in training. A number of incentive mechanisms have been used to encourage enterprises develop their

human resources, with varying success (tax exemption, grants, levies, etc). Bipartite and tripartite collective agreements have also been used to raise enterprise contributions to learning and training over and above any obligatory statutory contributions. Increasingly individuals are being encouraged to invest in their own learning and self-improvement. Sweden and the United Kingdom are experimenting with instruments (e.g. Aindividual learning accounts@) to encourage personal savings which can fund the learning that would help workers remain economically productive.

Box 3.2: Systems of further education and training and lifelong learning

The objective to provide all individuals with learning opportunities during their life time is ambitious, and so far most countries have had only modest success. Lifelong learning still has a considerable way to go to move beyond mere rhetoric. Legal provisions to guarantee the right to lifelong learning, however, have been enacted in several countries, mostly OECD member countries, but also some developing countries, e.g. Benin, South Africa and Argentina. Other reforms have focussed, in particular, on expanding private and enterprise training provision. Various policies and instruments have been put into effect, again with varying success, including the privatization of training institutions and entire training systems. In many developing countries, training institutions increasingly provide training for informal sector entrepreneurs and workers, who constitute the vast bulk of their labour force.

The development of a national qualifications framework is in the interest of enterprises and workers as it facilitates lifelong learning, helps enterprises and employment agencies match skill demand with supply, and guides individuals in their choice of training and career. The framework should include a credible, fair and transparent system of assessment of skills learned and competencies gained, irrespective of how and where they have been learned, e.g. through formal and non-formal education and training, work experience and on-the-job learning. Every person should have the opportunity to have his or her experiences and skills gained through work, through everyday activities or through formal and non-formal training assessed, recognized and certified. The ILO is establishing a database on best practices in developing a national qualifications framework, conducting a general study on the comparability of different national qualifications frameworks and will undertake research into the recognition of prior learning. France was one of the first countries to enact a law which entitles people to have their skills and experience assessed, irrespective of how these skills were acquired. In some countries, e.g. Australia, South Africa and the United Kingdom, assessment mechanisms to recognise prior learning form one element of their emerging national qualifications frameworks.

Social dialogue, consultation and both bipartite and tripartite collective agreements have a great potential to include the social partners in influencing policy on training and in raising investment in training but such arrangements are not as widely used as they could be. In the Emilia Romagna region of Italy, for example, local stakeholders (e.g. local government, enterprises, the social partners and training institutions) participate in financing and implementing training programmes. The ILO assists governments and the social partners in creating a favourable environment for effective social dialogue and partnerships in the training field. Through capacity-building, training and advisory activities, the ILO empowers its constituents to engage in a meaningful dialogue. The responsibilities in basic and continuous education and training, including funding responsibilities, of the various stakeholders will be identified in the ILO's forthcoming Human Resources Development Recommendation.

Policy challenges

- *Investment in education and training. There is a critical need for a greater overall investment in education and training, particularly in developing countries, for all people (including women and groups with special needs, such as people with disabilities). Responsibility should be shared between the governments (primary responsibility), enterprises, the social partners, and the individual.*
- *Basic education, literacy and core skills. Literacy and basic education cannot be leapfrogged. Urgent reforms are needed to improve basic education and the literacy of people in the poorest countries. The development of "core work skills" (such as communication, problem solving) is an important part of the reform to prepare individuals for the knowledge and skills-based society.*
- *Reforming vocational education and training systems. To make lifelong learning for all a reality, countries will need to make major reforms of their vocational and education and training systems. Training systems need to become more flexible and responsive to the rapidly changing skill requirements. Reforms should also focus on how learning can be facilitated, not just on training for specific occupational categories.*
- *Recognizing an individual's skills. Many people have acquired skills from a wide range of non-traditional sources, but these go largely unrecognised. It is critical that people should be able to have their skills recognized as part of a national qualifications framework, irrespective of where the skills were obtained.*
- *Social dialogue on training. There is an urgent need to involve the social partners more closely in discussions on training policy and skills development, if the desired reforms and increased investment are to become a reality. It is clear that governments can no longer be the sole voices on education and training. The more successful training systems are underpinned by a strong social dialogue process.*

3.3 Occupational safety and health and employment

Developments

Good health is a prerequisite for productive employment and workplace based programmes can help bring it about. Poor health and absenteeism are a major cause of loss of income. Furthermore diminished physical or mental capacity and well-being should not be something to be traded off against receiving a wage. Workers have a right to expect that the tasks they are asked to perform are set in good faith with all reasonable precautions taken against accidents and the risks of disease and contamination. Employers have a obligation to be aware of the health hazards involved in their working practices. The process of structural change thus needs a health and safety component, to ensure that existing job conditions are not jeopardized by fierce competition and to facilitate the process of shifting between work places.

In general the health situation in the world is improving and life expectancy has increased. However, occupational diseases and injuries still force millions of people out of work, some of them forever. Every year 1.2 million men and women (or 0.04 per cent of the world labour force) die in occupational accidents and from work-related diseases. By conservative estimates workers suffer 250 million occupational accidents and 160 million episodes of occupational diseases each year, i.e. on average up to 14 per cent of the labour force suffers some form of work related loss of earning capacity each year. This social and economic burden is not evenly distributed geographically. Fatality rates in some European countries are twice as high as in others, and in parts of the Middle East and Asia, fatality rates soar to four times those in the industrialized countries with the best records. Certain clearly hazardous jobs can be from 10 to 100 times riskier in poorer than in richer countries. Deaths and injuries take a particularly heavy toll in developing countries where large numbers of workers are in agriculture, logging, fishing and mining - some of the world's most hazardous industries. Children are also likely to be badly affected in these sectors. Calculations for a set of European countries suggest that occupational accidents and diseases have an annual cost for the whole society in the range of some 2.5 per cent of GDP. The ILO's estimate for the whole world is 4 per cent of GDP.

HIV prevalence rates of 10-15 per cent, which are no longer uncommon - can translate into a reduction in the growth rate of per capita GDP of up to 1 per cent per year. TB, which is made worse by HIV, takes an economic toll equivalent to \$12 billion dollars (the annual income of a medium-sized African country) from the incomes of poor communities. Women are bearing an increasingly large burden of the disease.

Differences in health status dramatically illustrate the divide between the rich and the poor in today's world. The inhabitants of poorer countries suffer disproportionately from the ravages of communicable diseases. In 1998 communicable diseases were responsible for about 34 per cent of all disease worldwide, but nearly twice that - 64 per cent - occurred in the fifth of the global population living in countries with the lowest per capita income. Most of these diseases can be prevented or easily cured with available vaccines and drugs, but poor countries and poor people cannot afford them. For example, Africa's GDP would probably be about \$100 billion or more now if malaria, often a work-related disease in agriculture, had been tackled 30 years ago, when effective control measures first became available.

Global strategies

The ILO and the WHO are the main global actors for health and safety at work and for public health respectively. Both organizations have recently started to implement new strategies. The WHO strategy lays particular emphasis on development of the health system infrastructure, starting with primary health care for the delivery of countrywide and universal programmes.

The starting point for the ILO "safework" strategy is that, over the years, industrialized countries have seen a clear decrease in serious injuries, not least because of real advances in making the workplace healthier and safer. The challenge is to extend the benefits of this experience to the whole working world.

The key question

How can OSH, i.e. the prevention of occupational accidents and diseases, and especially the use of safety standards, contribute to employability and to the better functioning of labour markets?

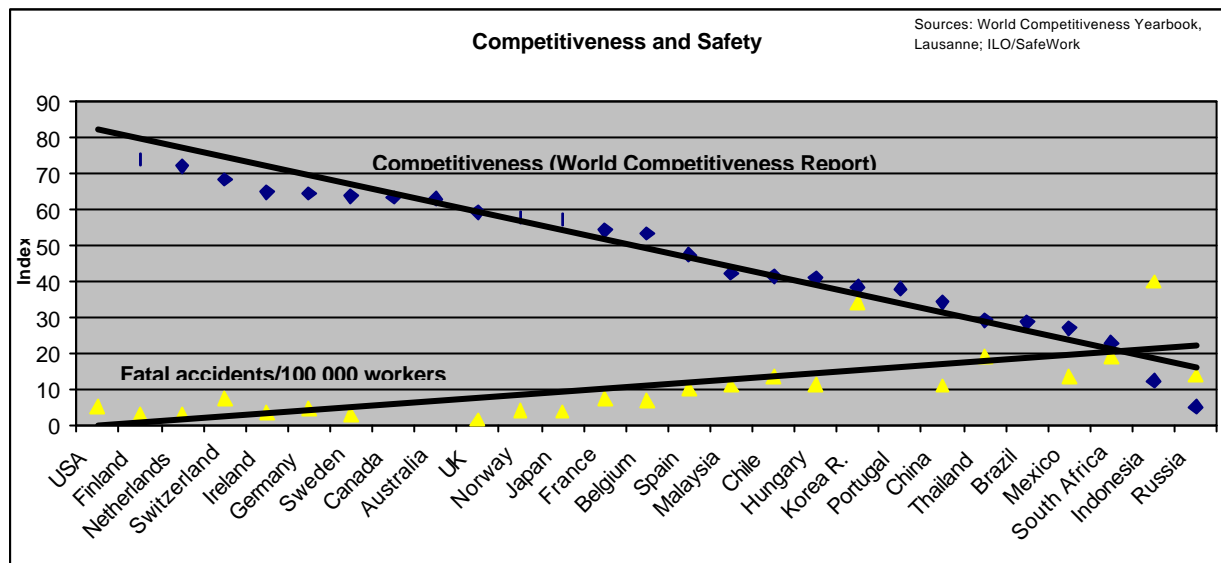
ILO response

The protection of the worker against sickness, injury and disease arising out of employment is a tripartite responsibility with a role for governments to lead and persuade, and if necessary enforce compliance (on the self-employed as well) for employers to act in good faith and for their organizations to coordinate and disseminate information and for workers' organizations to demonstrate to their members the need for good practice, and sometimes to check the degree of compliance at the work place. At the workplace workers' representatives act together with employers to establish a safety culture. Safety norms are needed as a point of reference and their enforcement is required because of a fear of backsliding. The framework for such safety norms and the simple way to publicize commitment to them is through the development of international standards. Beyond this is the need to update norms in the light of new research and findings, especially in the use of new products and processes.

It is misplaced to say that developed countries can afford good safety and health measures while poorer economies cannot, although probably what poorer countries cannot afford is regular work place inspection. While this can make them reluctant to ratify conventions, the globally most competitive countries have ratified the most OSH conventions of the ILO. Safe work creates no obstacles to being competitive and successful. In fact, no country – and no company in the long run – has been able to jump to a high level of productivity without making sure that the work environment is safe. Figure 3.1 shows the broad relation between national competitiveness (from the World Competitiveness Report)¹ and the rate of fatal accidents.

¹ International Institute for Management Development, World Competitiveness Yearbook 2000, Lausanne 2001.

Figure 3.1



Of course there are societal forces at work that raise the prominence of OSH measures as incomes grow. Furthermore informal sector working in poor countries can be particularly hazardous partly because of its semi-illegality, e.g. proper environmental services are not provided, electricity transmission is faulty and materials and tools are selected because they are cheap and available but not necessarily the most suitable. Upgrading informal sector working methods should have substantial benefits for OSH.

It is not always major steps that need to be taken to raise OSH levels. When workers cannot find their tools and materials, where walking platforms and gangways are full with rubbish, working time is wasted in avoiding existing hazards and the temptation to neglect proper safety procedures is increased.

The most efficient way to build a sustained safety culture at the enterprise level is through the establishment of occupational safety and health and management systems (OSH-MS).²

In order to make OSH a prerequisite for achieving decent work, the ILO would like to see protection extended to vulnerable groups of workers and finally to all. This needs better capacity, structures and organisations to address problems related to safety and health at work and a continuing demonstration of the degree of reduction of economic losses and improved productivity through safe and healthy work.

In addition, the promotion of workers' health can radically reduce the rate of absenteeism. The total number out of work for work-related reasons due to occupational accidents, work-related diseases, stress and poor management systems, may well be twice as high in one country as another - and more than double the number unemployed. Well-

² The **only** international guidance on this subject has recently been published by the ILO, namely ILO/OSH 2001. ILO/OSH 2001 follows the same systematic approach used by the International Organization for Standardization (ISO) for quality (ISO 9000 series) and environment (ISO 14000 series) management. Management and workers can apply such systems together.

organised and managed enterprises have been able to reduce absentee rates by 50 per cent or more by following good practices. Good health is good productivity.

Box 3.3: The economic impact of HIV/AIDS in sub-Saharan Africa

HIV/AIDS has, of course, a direct impact on life expectancy, which has declined in eighteen countries in the region, and on population structures, with the "population chimney" (involving drastic reductions in the proportion over the age of 35) likely to replace the "population pyramid" in the most severely affected countries by 2020. The economic impact of the epidemic is easiest to demonstrate at the household level. Infection of a household member means loss of the income of the person affected, an increase in medical expenses, and diversion of other household members from work and school attendance to caring for the patient. Death of a parent often results in removal of children from school: the number of orphans is increasing, many of them heading households.

Government spending on AIDS care accounts for an increasing proportion of budgets, crowding out other health and social development expenditures. In 1997 public health spending for AIDS alone already exceeded 2 per cent of GDP in 7 of 16 countries sampled (in countries where total health spending accounts for only 3 to 5 per cent of GDP). In the education sector, in addition to the pressure on children to drop out of school, HIV-related illness is eroding the supply of teachers and increasing class sizes. In Zambia, for instance, 1,300 teachers died in the first ten months of 1998, equivalent to around two-thirds of the annual output of newly trained teachers.

In the private sector, AIDS-related illnesses and deaths increase labour costs and reduce the supply of skilled labour. Companies report falls in productivity and increases in absenteeism (due to illness and bereavements), labour turnover (due to illness and deaths), and costs of recruitment, training and staff welfare. For instance, a Kenyan sugar estate reported: a loss of 8,000 days of labour because of sickness (at least three-quarters of which related to HIV infection) between 1995 and 1997; a 50 per cent drop in the ratio of processed sugar recovered from raw cane between 1993 and 1997; higher overtime costs for workers obliged to fill in for sick colleagues; a fivefold increase in company spending on funerals between 1989 and 1997; and a tenfold increase in medical expenditure over the same period.

In the longer run, the most serious problem may be the loss of human capital caused by HIV infection. Losses are thought to be disproportionately high among skilled, professional and managerial workers. The epidemic not only reduces the stock of such workers, it also reduces the capacity to maintain the future flow, because of the loss of staff in education and training institutions, and because the pressures within enterprises will reduce their capacity for on-the-job and other forms of in-plant training.

Sources: UNAIDS: *Report on the global HIV/AIDS epidemic* (Geneva: UNAIDS, 2000), p.29; World Bank: *Intensifying action against HIV/AIDS in Africa: Responding to a development crisis*, Africa Region (Washington, D.C.: World Bank Group, 2000), pp.11-12; ILO: *HIV/AIDS in Africa: The impact on the world of work*, Document prepared for the African Development Forum, December 2000.

Policy challenges

- *Develop awareness on and promote OSH as a positive factor for higher/better productivity – to show that 'safety' pays.*
- *Undertake measures to integrate OSH in the business plans of all organizations, encouraging these to become "safe" organizations.*
- *Information on safety norms and equally dangerous substances, products and working methods must be communicated to workplace groups.*
- *Special reviews must be undertaken of environmental risks to health and safety in areas where informal sector operators are clustered.*

3.4 Social protection and employment

Developments

Social protection helps workers adapt to both cyclical and structural change, with the consequent threat of unemployment, and to overcome income shortfalls caused by factors such as old age and sickness. This protection is provided largely through contributory programmes, based on principles of solidarity, notably statutory social insurance schemes. (Such publicly supervised social protection does not preclude private insurance, particularly of a supplementary nature.) Of course, the wider the base of contributing workers (and employers) the more effective a system can be. Tax-financed social protection on the other hand with no obvious link between contributor and recipient has an important role to play in providing universal or categorical benefits such as a national health service, child benefits, or basic old-age pensions, as well as social assistance benefits.

Social protection is much more highly developed in the industrialized countries than in most of the developing world. However, large numbers of people are covered in Latin America and the Caribbean, in parts of Asia and especially in the Middle East. But in the world as a whole it is estimated that less than 20 per cent of the population is covered by social security. Most systems include compulsory provision for old age. Unemployment benefits are only provided in industrialized and some middle-income countries. Many more people are, of course, the consumers of tax financed programmes, including health care. Others in developing countries gain from specific anti-poverty programmes such as the provision of subsidized food, etc.

Even within the industrialized countries the level of social protection expenditure, measured as a percentage of GDP, varies widely: from 10 per cent in Russia to almost 35 per cent in Sweden. The connection between the level of expenditure and labour market performance is complex and depends a lot on the details of schemes and their interaction with other labour market measures. A high level of contribution and of pay-out certainly need not deter high levels of employment as is shown by the experience of the Scandinavian countries and, for example, Austria.

In the industrialized countries attention is now focussed on the long-term financial implications for social protection systems of population ageing. However, in some countries a more immediate concern is still the large number of people who currently rely on social assistance benefits, particularly those who are of working age and able to work. The emergence of this issue has reflected many factors: restricted access to unemployment benefits, early experience of long-term unemployment, loss of work habits, poor education and training, an increase in the number of lone mothers, drug addiction and the growing alienation of many young people. Recently “welfare to work” policies have introduced new, and sometimes tough, measures to reduce the numbers on social assistance (see next section). However, this may be no achievement if those concerned are condemned to a poverty level wage, to homelessness or are tempted into crime.

In many transition economies the fall in GDP and an increase in income inequality resulted in an enormous increase in poverty, creating social problems which probably even well targeted social protection systems could not have coped with satisfactorily. Reform policies have resulted in many cutbacks in public social security schemes while the

privatization of pensions has proved no panacea and has imposed new strains on the system, making it difficult for governments to collect enough money to pay existing pensioners without adding to the already high contributions paid by employees and workers.

In the middle-income developing countries the extent of job loss following episodes of instability in global financial markets has demonstrated how ill prepared their societies are for dealing with the social consequences of sharp economic downturns. However, in some countries the improvement of social protection is now going hand in hand with economic reform. But a frequent problem, especially in Latin America, is the employers' and workers' frequent perception that they are not getting value for money. Anecdotal evidence suggests that where they can do so, many are opting out of the social security system, particularly unskilled and low-paid workers.

The social protection systems of low-income developing countries tend to cover only workers in formal, full-time employment (in the public sector or in private firms above a certain size), leaving most of the population with no protection. In many countries, particularly in Africa, formal employment has stagnated or even regressed in absolute terms undermining their young social security systems, which have also frequently suffered from poor administration. However, many developing countries have extended their social security legislation to cover employees in smaller firms and, in one or two of the more dynamic Asian economies, to all employees. Outside of the social security system self-help initiatives have set up micro-insurance schemes to jointly finance user charges for health services and other pressing needs while a variety of anti-poverty programmes and public employment schemes exist. Policy-makers should be aware of such self-help initiatives in the social security field and where possible sensitively encourage their operation.

Some countries have taken steps to adapt their social security provisions to the increasing participation of women in paid employment and to the larger share of female-headed and dual earner households. Women in paid employment have acquired independent rights in respect of most contingencies, but they are disadvantaged so long as benefits (and indeed coverage) are tied to a labour market with pervasive gender inequalities. Women's greater life expectancy reinforces their financial vulnerability in old age, a phenomenon accentuated by recent changes in pension systems.

The ILO and social security in the developing world

The strategy of the ILO focuses primarily on the extension of social security coverage. In the developing world this can be achieved to a limited extent by expanding compulsory schemes to new categories of employees and perhaps to persons in formal sector self-employment. However, social security institutions must be very well run in order to cope with the administrative demands that such an expansion implies and to inspire the confidence of the contributors. Improved governance and sound investment policies – so as not just to appear as an additional form of taxation – must therefore be an integral part of the strategy.

The key question

How do social protection systems support employment and equal opportunities for men and women and in what ways can they be made more employment-friendly? The links

between social protection and employment are rich and have to be explored dispassionately, in order to identify contributions to job creation and to incentives to job seeking.

ILO response

The feeling of security, and of confidence that the worst will be avoided, which social protection gives to the working population is of fundamental importance to employment. It allays workers' fears regarding structural and technical change. By facilitating the restructuring of employment, it enhances the dynamism of the economy - with implications for employment which are overall strongly positive. Benefits are provided whatever happens to the enterprise, shifting some of the responsibility for income security from the entrepreneur to society in general and granting the employer more flexibility. In the event of recession unemployment benefits act as an automatic stabilizer in the economy, encouraging counter-cyclical policy. Social security enhances labour mobility, not only by reducing workers' fears about the effects of job loss on income, but also by providing continuity of protection for health care and other social contingencies. National social security systems, unlike employer-provided schemes, ensure that workers and their dependants are not left without necessary coverage and suffer no loss of entitlement on moving from one job to another. In developing countries governments can contribute to this by at least trying to ensure the universal provision of affordable health care.

By contrast badly managed systems have many evils. Some encourage dependency, taking the unemployed off benefits for a brief period of perhaps inappropriate training before they return to benefits. They can entail a large government fiscal deficit when they cease to be self financing and especially when eligibility rules are distorted. They can effectively set up an immense incentive for both enterprises and workers to opt out of the system, when contributions are high and the quality of benefits is dubious. Furthermore the disincentive effect is likely to be highest at a threshold size of enterprise when the effective implementation of the legislation kicks in. Payroll taxes may be usually relatively easy to collect but they should not be used as a substitute for other sources of revenue, with possibly more balanced effects on job creation and enterprise development.

The strengths of social security systems should be built upon by reviewing features of pension schemes - both public and private - which contain strong disincentives to continued employment after the minimum pensionable age. However, the primary objective of pension schemes is precisely to allow workers to withdraw from employment and to enjoy their retirement while they are still fit enough to do so. Features of the system which interact with the needs of enterprises should be strengthened, notably unemployment benefits and benefits for partial unemployment or short-time working (provided, of course, that no suitable work is available. The activation of unemployment benefits must be compatible with a free and reasoned choice of employment. Self-financing unemployment benefit systems in middle income countries should be expanded without public subsidy and with built-in checks that the unemployed refrain from claiming benefits at the expense of other members when they are engaging in productive work above a certain income threshold.

The provision of equal opportunities for men and women can be helped by whenever possible extending social protection to people working in the informal economy; this can have a major impact on equality, as those concerned are disproportionately women. Extending coverage to part-time employees is also helpful; failure to do so has been ruled juridically to constitute indirect discrimination against women. Granting working mothers the

right to return to their jobs after an extended period of maternity leave has helped them reconcile the demands of family and of working life; this seems to have contributed to the growing trend for young mothers to return to work a year or two after giving birth. Furthermore, more nursery places in most industrialized countries and providing better care for people unable to look after themselves has gone hand in hand with many careers (mainly women) entering or resuming employment.

Policy challenges

- *Formulate national strategies for the development of social protection systems which ensure coherence between individual schemes and which complement employment policies and economic policies.*
- *Determine the appropriate roles and responsibilities for the state, the private sector, communities, employers and individuals in relation to the provision, financing and management of social protection.*
- *Formulate policies and initiatives which better protect people against poverty, loss or interruption of earnings from employment and which ensure access to adequate health care.*
- *Extend the scope of social protection provisions to those presently uncovered whether through the extension or modification of public schemes or through the development of innovative arrangements for example based on community or group support systems.*
- *Ensure that social security schemes correspond, in their benefit and contribution structure, to the circumstances and needs of workers but that they are also financially sustainable*
- *Increase awareness and support for social security principles and improve the management, performance and credibility of social security schemes*
- *Achieve equality of treatment as between men and women including and devise ways whereby social security rights are provided to those unable to work because of responsibilities as caregivers.*

3.5 Active labour market policies for more and better jobs

Introduction

In this section we review how public policies can contribute to a better functioning of labour markets noting, however, that in developing countries very many workers operate in family units. It is in these markets, on which no commodities, but human capacities are exchanged, that wages as well as the conditions of employment are determined. The operation of these markets, based on rules, institutions and bargaining power, has to make change acceptable while underpinning a process of rising productivity and prosperity. Intervention in these markets, “active labour market policies”, influences both the supply of,

and the demand for, labour and can help strike a new balance between flexibility for enterprises and security for workers (and adapting productively to change). In this way labour market policies create room for more growth-oriented policies.

Developments

In the next decade demographic developments will be extremely uneven. In many developed countries, and in almost all transition countries, population will shrink and age, dramatically so in Russia and the Ukraine. The US is a notable exception. But in most developing countries the population will grow. Nearly all the increase in world population 2000-2010 will occur in the developing countries. Labour force growth will be highest in Africa and the Middle East. These developments require different policies in different parts of the world.

Flows in labour markets are a multiple of stocks. Business cycle variations and adjustment of the private and public sectors to structural change, job creation and job destruction, labour turnover and job mobility, transitions between employment and self-employment or between employment and unemployment or between formal and informal employment all imply a flow of workers between different activities. Estimates of yearly flows in and out of dependent employment in the EU member countries in 1994/95 varied between a low of 16 per cent in Belgium and a high of 32 per cent in Spain. Unemployment flows are much higher than yearly stock numbers: for example in Germany around 7 million people are affected every year by unemployment, about twice the number unemployed at any point of time. Policies not only have to deal with stocks (e.g. accumulated unemployment) but also to manage flows.

Despite these dynamics average employment tenure was about 10 years in the EU in 1999; in the US it was, however, only 6.6 years. Contrary to popular perception the share of those with long tenure has generally increased in the industrialized countries over the 1990s because of the ageing of the work force. Nonetheless temporary work and involuntary part-time work have also increased. Employment has been much less stable in transition countries, and the share of those in the relevant age group who have kept the same job since the fall of communism is only slightly over 30 per cent although it varies strongly across countries. Less secure forms of tenure both in the formal and informal sectors have been growing rapidly.

The labour market picture is different in developing countries. Those workers with good, e.g. government jobs usually keep them for life. Many workers, especially casual labourers and those cultivating small farms are affected by seasonality and necessarily work in different sectors at different times. Job tenure in the informal sector can nonetheless be for substantial periods, especially for family members and friends. Informal sector employees often have earnings that rise with age and experience, witnessing their rising value to the enterprise, and are thus not substitutes for each other. But flexibility and employment precariousness are more widespread in developing countries. Legislation on job protection in the enterprise is often strict but applied only to a minor share of even wage employment. In many countries furthermore this legislation has been or is being weakened partly as a matter of realism and partly because it was often enforced in an arbitrary manner. One widespread development has been the expansion of employment of young women in export processing zones, usually at a wage level which implicitly accepts that they will not be able to support a household alone.

Global and regional strategies

The World Summit for Social Development endorsed the ILO's mandate in the implementation of full employment, based on Convention No. 122, and supporting a labour standards strategy based on the Declaration of fundamental principles and rights at work. These policies have been complemented and widened by the decent work strategy. Adherence to the Declaration is assumed in a country's membership of the ILO, which is universal.

Box 3.4: International Labour Standards concerning employment promotion

International labour standards relating to employment promotion include the Employment Policy Convention 1964 (No. 122) and Recommendation 1964 (No. 122); the Employment Policy (Supplementary Provisions) Recommendation, 1984 (No. 169); the Special Youth Schemes Recommendation, 1970 (No. 136); and the Job Creation in Small and Medium-Sized Enterprises Recommendation, 1998 (No. 189). The Employment Policy Convention calls on all ratifying States to "declare and pursue, as a major goal, an active policy designed to promote full, productive and freely chosen employment". Ratifying States report regularly to the Committee on the Application of Conventions and Recommendations on the steps they have taken to implement the Convention. The Committee of Experts reports in turn to the tripartite Conference Committee on the Application of Standards, which each year has a general discussion on employment policy.

The international labour standards concerning employment promotion focus on key points of methodology which are relevant to all countries, regardless of their stage of development and indeed of the economic policies they follow. These points stress the need for:

- An integrated approach to employment promotion;
- Emphasis on equality of opportunity;
- A periodic review of the effectiveness of their policies and programmes, with adjustments as needed; and
- Consultation with representatives of employers and workers and with other persons affected (such as rural workers and workers in the informal economy) at all stages, from policy development to review of specific programmes.

Many aspects of labour market policy are covered by other international labour standards. As such, they also give rise to comments by the Committee of Experts and the Conference Committee, as well as the Committee on Freedom of Association, which may consider complaints concerning any Member State, regardless of ratification.

The European Employment Strategy (EES) also targets high employment to population rates by action in four areas: employability, adaptability, entrepreneurship and equal opportunities. One important policy lever is the activation of social protection (in other words making work pay) in order to increase the active population. The employability pillar has ambitious quantitative goals: all unemployed below 25 should have a job or a training offer before the elapse of six months of employment. For adults the threshold is 12 months. The EES was finally endorsed by governments and integrated in the European treaty (Amsterdam 1997). It is remarkable for its implementation process: yearly guidelines and recommendations by the European Commission are based on national action plans and a joint employment report. The EES now also extends to the accession countries.³

³ Among its member countries the OECD "Jobs study" aimed at an increase in employment to population rates, especially for youth, older workers and women, with an emphasis on flexibility in the labour market. Elements of the strategy related to the deregulation of employment protection, the shortening of benefit duration and lower replacement rates in unemployment benefit systems, lower payroll taxes and contributions and restricted early retirement policies. "Making work pay" policies, which increase incentives to work (e.g.

On a worldwide scale, inter-agency activities targeting both youth unemployment and the ageing of the workforce have been initiated by the United Nations with substantial involvement of the ILO.

The key question

How to design and implement labour market policies and institutions that allow an efficient management of change, which strike a good balance between flexibility and security that will underpin productivity growth and create an inclusive and regionally balanced labour market.

ILO response

Labour market policies and institutions are of fundamental importance for well-functioning labour markets. Policies must understand labour market dynamics, i.e. in industrialized countries the huge flows in and out of employment and unemployment. A successful management of these flows, meeting the needs both of jobseekers and employers, is a key to high rates of employment and low rates of, especially long-term, unemployment. Few developing countries approach their labour market policies in that way, partly because they rarely have a dynamic picture of labour market functioning. Their policies, indeed, may be restricted to regulating the working conditions of those who have found jobs and making up for deficiencies in labour market institutions.

Policies should aim at reforming or introducing labour market policies and institutions which strike a balance between the adjustment needs of the private and the public sector and the security of workers. While employment security implies that workers are maintained in productive workplaces, it is equally important that those losing their jobs or changing jobs have access to new jobs. In addition those entering the labour market should be helped by adequate policies. Creating such an institutional environment, which allows smooth and secure transition between jobs is the main task of labour market policies in a comprehensive employment strategy.

through in-work benefits like a negative income tax) were also recommended. The strategy called for a long-term approach to labour market reforms involving government and the social partners.

Box 3.5: Role of public employment service in employment and labour market policies

Job search assistance, training, retraining and the redeployment of unemployment workers are an important building block on the road to increased structural change and higher levels of employment. However, they have a limited role in many developing countries. One of the principal reasons for this lack of effectiveness resides in the very limited capacity of national labour institutions, particularly the public employment service, to implement active labour market policies. Reasons include their limited financial resources, and lack of qualified staff and technical expertise in programme design and implementation.

Since the early 1970s industrialized countries have reformed and strengthened their public employment service. Its main focus is on getting the unemployed back to work; helping them to maintain their employability and providing incentives to work; and together with private employment agencies, improving the functioning of the labour market. Developing countries' activities in these areas need to be encouraged. These activities include better labour market information systems, job-search and vocational counselling services, and an improved capacity to design and implement training and retraining programmes.¹

¹ Phan-Thuy, Ellen Hansen and David Price, *The public employment service in a changing labour market*, ILO, Geneva, 2000.

These are the major common elements of labour market policies to manage change in an ILO employment strategy. However, there are great differences in economic and social conditions and in institutional development in different parts of the world. Thus the OECD and EU jobs and employment strategies presuppose well developed institutions, above all of social protection, even though on occasions the incentive for some workers not to seek work maybe strong because of the alleged "generosity" of social protection system. This has led to the endorsement of activation strategies, re-establishing a link between the right to benefits and the duty to actively search work and be trained. But the enthusiasm for adopting some of the recommendations of these strategies in the developing countries, which do not have these institutions, has been limited. There, the labour markets are often extremely flexible and it is the elements in them which strengthen job tenure and skill acquisition which need to be reinforced. In such labour markets, minimum wage legislation is an element which can compensate for the underdeveloped state of wage bargaining institutions. Well functioning labour markets need an efficient combination of stable and flexible jobs.

Box 3.6: Articulating ALMPs: The developing countries

Active labour market policies (ALMP), and associated rules and institutions, as conventionally understood in the advanced industrialized countries, are only partially developed in the developing countries. However, although *comprehensive* ALMP models are scarcely observed, many developing countries are giving serious considerations to various ALMP elements in a review of their existing active labour market policies. Currently, ALMP is largely informed by a *regulatory* framework, the Labour Code, and a range of varying policies and services, regarding vocational and skills training, targeted employment and income schemes and public employment services. A dominant consideration of an articulated labour market policy framework would lie in its ability to facilitate the matching of supply and demand for labour, under constantly shifting market signals and firm-level restructuring. Notwithstanding that, in a typical developing country, the LM *regulatory* framework itself relates to a small fraction of the workforce (organized labour) a broad-based labour market policy would need to be developed that would be consistent with the liberalization reforms on the one hand, and basic workers' protection on the other. The need to enhance employment and labour mobility must remain an important consideration in this policy design.

As a significant ingredient of the labour market policy framework, *special targeted programmes* need to be designed and extended to provide employment and income support, especially to the more vulnerable groups. The extent to which such programmes can offer coverage is guided by the fiscal space and priority.

Labour market regulations, however, do not imply that all wages and hiring and firing should be strictly institutionally mandated, without any relationship to productivity. It can then lead to, as indeed has happened in many countries, labour becoming a *fixed* cost, and the economy being saddled with *sick* industries. A sound LMP needs to avoid such a zero-sum, often conflictual situation. Most importantly achieving a labour market policies, e.g. *retraining* and *redeployment* mechanisms need to be embedded in a renewed LMP framework. Innovative programmes need to be designed to cast a wider safety net to include informal sector workers. Similarly, the *wage-setting mechanism* must be reviewed to ensure that wages have a fair correspondence with productivity, but at the same time allow labour mobility and employment generation. The LMP framework in many countries provides for a *minimum wage* as a social protection and a poverty measure, although this does not apply to the majority of the unskilled workers (in the non-formal sectors) who need it most.

In increasingly opening up of their economies, developing countries need to formulate a LMP that draws clear lines in respect of the apparent trade-off between competitiveness, on the one hand, and the need to ensure minimum labour standards. There is a growing awareness, as regards FDI, for example, that "cheapening" the cost of labour and "worsening" the conditions of work are poor alternatives to the expansion of human skills and productivity. A critical challenge in the future design of LMP is to foster employer-worker partnerships to anticipate and prepare for changing competitiveness.

Box 3.7 describes the Danish model of security and employability which is one "best practice" case showing a trade-off between employment security and labour market policy. Of course this is not the only way to deal with the problems of structural and labour market change. Other European models function with stricter employment protection, which is traded-off against adjustment through age-related measures such as early retirement. In general these policies have been discussed with the social partners and in some countries have been formulated by them. Social dialogue is therefore part and parcel of the active labour market policy framework. The ILO would like to raise the general level of awareness that labour market policies are a matter of common concern for workers and their employers, as they give a capacity for productive adjustment to companies and income security through employability to workers.

Box 3.7: Danish labour market institutions

Denmark has a highly mobile labour force, as high as in the USA, and employment protection legislation is generally considered very weak. Flows in and out of employment and unemployment are among the highest in the OECD and length of employment tenure is among the lowest, only in the UK and the US do workers have shorter tenure than in Denmark. Yet, this labour mobility rather than being market driven is institution driven. Three factors interact: low employment protection, high social protection and active labour market policy, especially training arrangements. The working of this system sometimes called "the golden triangle", is as follows: employment is only weakly protected at the company level but access to social protection, not only unemployment benefits and training opportunities, but also maternity and parental leave and other possibilities of career breaks, is relatively easy and wage replacement levels through benefits are high.

This system produces frequent spells of unemployment. Around 20 to 25 per cent of the Danish labour force on average enters the unemployment benefit system every year (some, however, have more than one unemployment spell per year) but remains there only briefly before shifting back to work (either to the same employer, around 35 per cent of the unemployed, or to another employer) or to one of the labour market measures (training, leave, etc.). Job rotation policies, which allow the temporary replacement of those in training, add to mobility. Thus there is a constant flow in and out of employment, unemployment and training, which underpins high employment to population rates for both women and men and an inclusive labour market (Danish employment reached almost 77 per cent in 1999, compared to 74 per cent in the US). The system provides adjustment flexibility to firms (also allowing early retirement), while protecting the incomes and employability of workers. The Danish example shows that it is not always necessary to have strict employment protection at the firm level as there are trade-offs among employment security, social protection and labour market policies. Firms can also shift a part of their labour costs (for employment adjustment in troughs or for training) to the state. But expenditure in labour market policy is high and the golden triangle needs high taxes to be maintained. Nonetheless both firms and their workers benefit and seem to tolerate the necessary taxation.

Policy challenges

- *Design appropriate policies and build effective mechanisms to help jobseekers to find jobs and employers to find people with the right skills.*
- *Focus on better education and training and on systems for life long learning which will promote labour mobility and rapid adjustment to change everywhere.*
- *Introduce measures to influence labour demand, where necessary, in favour of groups at risk of marginalization especially when demand for labour falls off, such as people with disabilities. Labour market policies, well designed, also play a central role in the fight against discrimination.*
- *Contribute to increased labour mobility in line with international labour standards not only in individual countries but also between countries.*
- *Labour market policies should support economic measures stimulating business development and new job creation.*
- *Labour market policies, in the developing countries need to incorporate specific measures to support the "working poor", especially those in the informal sector.*

Chapter 4

Strategies for growth, employment and poverty alleviation

4.1 Introduction

The interaction of the stimulus given by the forces for change and the policies adopted to manage change leads to an environment which allows greater scope for macroeconomic expansion and employment-oriented development policies. This chapter reviews strategies for growth, development and poverty alleviation and for macroeconomic expansion.

4.2 Development policy for employment, growth and poverty alleviation

Introduction

Poverty is stubbornly persistent in much of the developing world. It exists in wealthier countries but its depth and consequences are of a very different magnitude. In developing countries the poor are just very vulnerable, whether to crises of all kinds, or paradoxically, to elements in the packages adopted to overcome crises. In addition prolonged armed conflicts destroy the very basis of livelihoods of poor people and destroy the asset base, leading to the further deterioration of an already precarious situation.

Box 4.1: Employment impact of crises

Currently, about a third of ILO's member states are in conflict, emerging from conflict, re-entering into conflict or affected by conflict in a neighbouring country. One immediate effect of conflict is that unemployment and underemployment soar. For example, East Timor, following the violence which accompanied its independence, the unemployment rate was probably as high as 75 per cent. Again, as a result of the recent ethnic conflict in the Solomon Islands, modern sector enterprises, which employ over 8,000 workers, are closed, and this in turn had a strong negative impact on employment opportunities in the rest of the economy.

Natural disasters are increasing in frequency and intensity, causing enormous damage to infrastructure and livelihoods. In 1999 alone there were 700 large-scale disasters. As in the case of armed conflicts, the effects of natural disasters on the labour market are immediate and dramatic. Hurricane Mitch in Central America wiped out most of the development gains of the preceding decade. In Mozambique the floods in 2000 resulted in a loss of some 300,000 jobs. In the affected districts of Gujarat (India) preliminary estimates indicate that about 10 million person-days of work were lost during the first four months of 2000 due to earthquakes and drought.

An important aspect of poverty is its gender dimension. Women are often disproportionately represented among the poor and female-headed households are more vulnerable to poverty, and the percentage of households headed or maintained by women appears to be increasing. Women's participation in the labour force has increased but it has not been matched by a corresponding improvement in the quality of their jobs.

Developments

An analysis of the experience of developing countries shows that rapid expansion of productive employment has always been associated with rapid poverty reduction. In recent history, this linkage is best illustrated by the growth of East Asian countries and regions like the Republic of Korea, Taiwan (China) and Hong Kong (China) and Singapore. Since about the mid-1960s, these countries have achieved historically unprecedented rates of growth. This was accompanied by high rates of labour absorption. The labour force achieved steadily increasing levels of human capital in terms of better health and higher skills. Employment increased rapidly, and real wages increased roughly at the same rate as per capita output. Rapid growth thus led to a quick decline in the incidence of absolute poverty. That experience was repeated during the 1980s and the 1990s elsewhere, especially in Malaysia, Thailand and Indonesia.

In contrast, the persistence of poverty in sub-Saharan Africa is best explained by the slow rate of output growth which in turn has severely constrained the expansion in productive employment in recent decades. The experience of South Asia can perhaps be said to fall in between the above two - moderate output growth coupled with lower rates of labour absorption in productive employment compared to East Asia have meant only limited success in poverty reduction.

The incidence of absolute poverty in Latin America is naturally much lower than in South Asia or sub-Saharan Africa. However, poverty in Latin America is higher than in East and South East Asia although per capita incomes are higher. Moreover, in that region there has been no reduction in the percentage of people in poverty over the past decade – the figures for 1987 and 1998 being 15.3 and 15.6 per cent respectively. Of course, some countries achieved notable successes in poverty reduction. Chile, for example, achieved a dramatic reduction in the incidence of poverty during the 1990s and also witnessed high rates of output growth accompanied by a steady reduction in the rate of unemployment and a similar rise in the real wages. Likewise, in Brazil, a moderate rate of economic growth and a rise in real wages enabled the country to achieve substantial reduction in poverty during 1990-96. Thus, poverty declined in countries where the growth-employment-poverty linkage functioned in a satisfactory manner.

Although a high rate of economic growth is essential for poverty reduction on a sustained basis, many developing countries have not been able to achieve this. If they were to wait for poverty to be alleviated through the normal process of economic growth, they would perhaps have to wait for a long time. Special measures and programmes directly targeted at the poor have been put in place in such situations.

Direct interventions for poverty alleviation can be of two types: (i) programmes for employment and income generation, and (ii) measures for supporting consumption and other services (e.g. subsidies on food, and health and education services). The former can, in turn be of two types: self-employment programmes and wage-employment programmes. Self-employment programmes usually target the poor and assist them in undertaking income generation activities by providing them with micro-credit (sometimes supported by skill training, and assistance in marketing). Wage employment programmes create employment by using labour-intensive methods in infrastructure. Evaluations of the effectiveness of targeted employment programmes (both types mentioned above) indicate rather mixed results. There are programmes in both categories which have been successful in reaching the

target groups and in raising the poor above the poverty line. These include the "Grameen Bank" programme and interventions by BRAC (which is one of the largest NGOs in the world) in Bangladesh. A particularly attractive aspect of such programmes based on micro-credit is that women usually form an overwhelming majority of the borrowers; and access to credit provides them with an opportunity to create an asset base for themselves over which they have control. Wage employment programmes that have been successful include the Employment Guarantee Scheme in Maharashtra State in India and the rural road maintenance programme in Bangladesh. The experience of the programmes mentioned above may provide some pointers as to how such targeted employment-focussed interventions could be effectively deployed in the fight against poverty.

Global strategies

The international development target with respect to poverty is to halve its incidence by the year 2015 as was recently reaffirmed at the millennium session of the United Nations General Assembly.¹

The efforts of developing countries to reduce poverty are usually assisted by international agencies. There are two main types of outside assistance, policy-based and programme-based. The former are drawing up of macro- and national-level economic policies where the international donor community works with national governments. These initiatives currently typically take the form of poverty reduction strategy papers (PRSPs) (see Box 4.2). Second, are many poverty alleviation programmes that most often UN agencies are working on, along with the participation of national governments and non-governmental organizations. Here the UNDP's development assistance framework is influential, although it is integrated in the countries' poverty reduction strategies in which the ILO contributes.

¹ There are six other central international development goals; to enrol all children in primary school by 2015; make progress toward gender equality and empowering women by eliminating gender disparities in primary and secondary education by 2005; reduce infant mortality rates by two-thirds between 1990 and 2015; reduce maternal mortality rates by three-quarters between 1990 and 2015; provide access for all who need reproductive health services by 2015; and implement national strategies for sustainable development by 2005 so as to reverse the loss of environmental resources by 2015.

Box 4.2: The Poverty Reduction Strategy Paper (PRSP) process

PRSPs are prepared in all low-income countries intending to borrow from the IMF or World Bank or access debt relief under the Initiative for Heavily Indebted Poor Countries (HIPC). National authorities base PRSPs on extensive consultations with civil society and donors. The aim of the process is to integrate the authorities' macroeconomic framework with an assessment of the poverty situation and plans to reduce poverty.

The process is a complete break with the past since the earlier Policy Framework Papers used as a basis for lending by the Bretton Woods institutions were prepared jointly by country officials and IMF and World Bank staff without broader consultation. Changes in strategies are evident in a number of ways: greater transparency; a pro-poor shift in public expenditures; more focus on governance and accountability for public resources; streamlined conditionality; and willingness by some donors (such as the United Kingdom and the European Union), to use the PRSP as basis for their aid. Other changes will become more evident over time, as participatory processes take hold.

Government spending is being shifted towards activities that demonstrably benefit the poor, especially where debt relief under the HIPC Initiative is releasing funds previously used for debt service. At the same time, tax reforms aim to improve both equity and efficiency. Equally important is ensuring appropriate flexibility in fiscal policy, including in targets for fiscal balances. There should be scope to react to commonly experienced shocks, such as deteriorating terms of trade or poor harvests. Other UN organizations are cooperating with governments and the Bretton Woods institutions in the PRSP process and the ILO has been involved in Cambodia, Honduras, Mali, Nepal and Tanzania. ILO activities have included assistance in integrating employment goals and policies to achieve them (identification of employment-intensive sectors, e.g. housing) and support for tripartism in drawing up the PRSP, frequently using on-going technical cooperation projects.

As a process the PRSPs are certainly to be welcomed as they are far more inclusive an instrument than any used before. But they may well need to be strengthened in order to be successful in poverty alleviation and in breaking out of the stabilization trap.

The key question

How can the development process be made more effective in reducing poverty through the generation of productive employment?

ILO responses

An employment-focussed development agenda for poverty reduction

The experience on what has worked and what has not with regard to poverty reduction indicates that a development strategy aimed at poverty reduction will need to have two basic pillars. First, the economy must succeed in ensuring a high rate of growth. This calls for comprehensive policies encompassing incentives for domestic capital accumulation and investment from abroad, policies for effective deployment of investment resources in socially productive activities and industries, and institutions conducive to the pursuit of efficiency. Second, growth must also be appropriately employment intensive in the given context of resource endowment, without of course sacrificing productivity and efficiency considerations.

One way of making growth strategy efficient as well as poverty reducing would be to promote self-employment among the poor by converting them into micro entrepreneurs. In addition, policies would be needed to ensure appropriate terms of exchange for the produce of the poor, whether they are small farmers or micro entrepreneurs in non-farm activities.

Careful interventions in the functioning of the labour market, with a view to protecting the weak members of the labour force, especially in an environment of unequal bargaining power, can improve the welfare of the poor. It is, however, important to ensure that these interventions do not restrict the growth of demand for labour.

In terms of approaches to poverty alleviation it would appear that some strategies are more market based, i.e. put more effort into establishing free markets, using market prices and relying on market-based outcomes, than others. Other strategies are nuanced more towards redistribution, especially in consumption and possibly also in access to land, and towards income support. Intervention in food prices in favour of the poor can also be part of a strategy. Empowerment, support for civil society initiatives and community participation can also be emphasized to different degrees as can the whole issue of labour market and other regulation and minimum wages and their role in providing bargaining support for wage earners. There is, however, general agreement on elements of a core strategy of universal access to education and health, targeted assistance to those least able to help themselves, and business promotion to absorb labour. A range of instruments is therefore available, showing that space exists for different and more explicitly targeted poverty alleviation policies.

Efforts to raise the incomes of the working poor

Two broad approaches can be adopted in this regard. First, as part of the overall growth strategy, it is possible to encourage policies aimed at raising the growth of higher productivity activities in which the working poor can be absorbed. Second (and not mutually exclusive with the first), policies and programmes can be formulated to tackle the issue of raising productivity in activities that the working poor are involved in.

If an economy can get onto a high growth path, and which through appropriate macro and sectoral policies growth can be made sufficiently employment-intensive, adequate amount of productive employment will be created so as to gradually absorb all the working poor into such jobs as will lift them out of poverty. Indeed, this is the path that has been followed by the East Asian countries that were successful in alleviating poverty. It must be recognized, however, that in many of the developing countries characterized by high incidence of poverty, such high growth rates are not in sight. While efforts need to continue on implementing an employment-intensive high growth strategy, additional interventions will be needed to address the situation of the working poor.

As regards raising the productivity of activities in which the poor are engaged it is widely recognized that the working poor (at least in developing countries) are mostly engaged in urban informal sector and rural non-farm activities. Some of the factors responsible for low productivity, low returns and low wages in these activities include the type of market and demand for the products, relative prices of inputs and outputs, marketing arrangements, technology used, low levels of education and skills of the workers and their bargaining power. Some of these factors are, in turn, due to the limited access to finance and productive assets due to the initial poverty situation of these workers.

Box 4.3: Collateral = a key obstacle in the access to capital

The assets that the poor have to offer do not fulfil the requirements for bank lending. The fixed property held by the poor in the world may be worth a staggering \$9.3 trillion (according to Hernando de Soto's in "The mystery of capital")¹ but it cannot be used to get access to bank loans: it does not figure in property registers. Substitutes that have been invented by micro-finance institutions to overcome the shortage in conventional collateral, like joint liability, personal valuables, household goods, price fixed deposits, etc. are not generally attractive to banks.

A recent ILO study reviewed the collateral-related practices of banks in Bolivia, India and Tanzania. It also reviewed the rules and regulations governing collateral-taking as well as the status of property registers in those countries. The findings suggest that modernization of property registers, a simplified judicial proceeding for insolvency cases (fast-track) and modified rules on weighted risk provisioning can help substantially to open access to the poor to financial services.

¹ H. de Soto, *The mystery of capital: Why capitalism triumphs in the West but fails everywhere else*, New York, Basic Books and London, Bantam Press, Random House, 2000.

For rural non-farm activities, additional factors include constraints posed by poor infrastructure (in terms of roads, transport, power). In addition to the above, a large number of the working poor in both urban and rural areas are in exploitative or coercive external economic relationships (e.g., with suppliers of assets and equipment, inputs and credit, or with purchasers of products). Policies and action to fight against poverty of such people will need to be based on a clear understanding of such varied factors. While there are success stories from programmes being implemented in various countries, it would be important to learn from them and find ways of replicating the good practices on a larger scale.

As discussed in Chapter 1 in most developing countries increasing the productivity of the working poor is the most effective way to raise the rate of economic growth and in order to achieve that it is necessary to provide poor households with access to resources like land, other physical assets, credit and public services, as well as with opportunities to build their human capital. Innovative programmes of education, skill development, credit delivery, and provision of public services can be important in that respect.

Labour based approaches in infrastructure: A policy that can contribute to economic growth as well as job creation

The critical importance of infrastructure in catalysing development is well-known given that some 20 per cent of total investment and 40 to 60 per cent of public investment in developing countries are allocated to infrastructure. Given the range of technological options that are available for this sector, it is possible to use investments here as a means of generating much needed employment for the poor while at the same time, carefully planned infrastructure can help growth of economic activities that would benefit the poor. Labour based approaches can also be applied in urban situations where they would contribute simultaneously to an improvement in conditions of living of the urban poor and improvements in urban environment. Upgrading urban slums (through clearing and paving of roads, improving drainage), and management of solid wastes are examples of such activities.

While the approach outlined above is often taken as synonymous with public works programmes, experience (especially with ILO's programmes in this field) shows that it is possible to involve the private sector and communities in executing the infrastructure schemes. It is also possible to introduce elements of core labour standards (e.g., those relating to forced and child labour, non-discrimination, wages, safety requirements, etc.) in their execution. Thus, although many experiences with public works programmes have been rather disappointing, that need not be an argument against such an approach. Rather, that should be an argument for devising and implementing programmes that can successfully contribute to poverty reduction. Indeed, evaluations show that with good programme design, especially based on decentralized planning and community involvement, and effective implementation, labour-based approaches in infrastructure can make a valuable contribution to the goal of poverty reduction.

Reducing labour market vulnerability

To the extent poverty is due to labour market outcomes, vulnerability in the labour market should be an immediate target issue for policy and action to reduce poverty. As mentioned, women are disproportionately represented among the poor. They face a disadvantageous situation in the labour market due to a variety of factors, e.g., lack of control over assets, competing domestic and labour market demands on time, inadequate access to training, and discrimination. Different types of interventions, including legal and institutional reforms, legislative action and developmental efforts will be needed to address the various factors contributing to vulnerability.

Policy challenges

- *To develop, at the country level, an employment-led poverty reduction strategy through appropriate sets of macroeconomic and sectoral policies that would ensure a high rate of output growth and a high rate of employment growth without sacrificing efficiency.*
- *Develop specific measures aimed at raising the productivity and incomes of the "working poor" focussing on skills, terms of exchange for their products, access to finance and other infrastructure, and their bargaining power. Action, therefore, is needed on a wide front.*
- *Incorporate employment consideration explicitly into public investment programmes - especially where there are choices - into the process of resource allocation. Build (and/or strengthen) institutions and capacity at various levels to plan and implement employment-focussed public investment programmes (especially in infrastructure).*
- *For countries emerging from various types of crisis, formulate appropriate sets of policies and programmes aimed at resuming high growth of output and rebuilding livelihoods. In some situations, especially in regions affected by prolonged armed conflicts, focus reconstruction programmes particularly on infrastructure, institutions and support services.*

- *Develop for the “ working poor” (including in the informal sector) innovative measures for ensuring minimum levels of income and protection against risks and vulnerability (including ill health and old age), without creating a stifling environment for the growth and functioning of their work places.*

4.3 Macroeconomic policies and employment

The forces for change and the good management of change interact to produce growth, but that growth that has often been elusive and when achieved, not sustained. Employment goals will indeed be met only with growth sustained over a long period. And the working poor may well only see their productivity rise if resources are available to finance education, health and income-generating programmes. While a precondition for growth lies in establishing basic macroeconomic conditions, sustained growth requires resource mobilization and investment which in many countries is financed by concessional aid flows.

Developments

Growth has been generally poor in recent years. On a global scale during the period of liberalization and restructuring of the 1990s growth was lower than in the late 1960s and early 1970s. World GDP grew at 3.5 per cent in 1993-2000 compared to 5.3 per cent in 1966-1973. Only East Asia and South Asia bettered their growth performance between those two periods. The OECD rate fell somewhat and that for all other regions fell sharply. For example in Latin America, growth during the 1990s was only 3.2 per cent a year, compared to 5.5 per cent during the 3 decades from the early 1950s to 1980s. African performance, and that of least developed countries in general, was worse than before and in many African countries per capita GDP is lower today than in the 1970s.

As the Asian crisis showed, countries which have good macroeconomic policies, but weak and externally dependent financial structures, can experience sudden capital withdrawal with dire consequences for employment. Thus world GDP growth dropped from 4.1 per cent in 1997, before the Asian crisis and a major slump in Japan to 2.6 per cent in 1998. In the Asia-Pacific region it dropped from 6.7 per cent to 4.1 per cent. The contagion effect outside the Asia-Pacific region moreover caused a drastic decline in GDP growth in Russia and Latin America. In quantitative terms, however, such declines are dwarfed by e.g. the slow down in Central and Eastern Europe following political and economic transformation, by the deflationary effects of the EU's efforts to adhere to the Maastricht criteria for economic and monetary union and by what appear to be cyclical effects in especially the USA and Japan. In terms of their effects on exports and jobs in developing countries these down turns in industrialized are very serious. Thus, achieving greater stability within major markets is a paramount global issue.

Furthermore, the incomes gap between advanced countries and many developing countries is widening. In 1960, per capita GDP in current dollars in the richest 20 countries was 18 times that in the 20 poorest countries. By 1995, that gap has widened to 37 times. Recently the average ratio of concessional aid to donor countries' GDP has fallen to 0.24 per cent (in 1999, compared to 0.35 at the beginning of the 1990s). During the 1990s annual aid flows fell in nominal terms from some US\$60 billion to US\$50 billion.

Box 4.4: External financing and external debt: An improving situation in Africa but major challenges remain

The debt situation and external financing for 3 groups of developing countries is shown below. These groups are Africa (all Africa except Egypt and Libya – the IMF definition) Latin America and the Caribbean and developing Asia (this includes China but excludes Singapore and the Republic of Korea). In Africa debt servicing as a share of GDP, fell between 1993/94 and 1998/99 and exports as a share of GDP rose, i.e. the foreign exchange position improved. Thus mobilizing resources for debt servicing should have become easier. Furthermore, debt servicing as a share of debt fell. At the same time there was an increase in external financing as a share of GDP and the share of that financing which was non-debt creating, i.e. either FDI, portfolio investment or grants, rose considerably.

External financing and external debt, developing regions

	Africa		Latin America and the Caribbean		Asia	
	1993/94	1998/99	1993/94	1998/99	1993/94	1998/99
Debt servicing as % GDP	8.0	6.3	2.2	2.8	3.9	5.2
Exports as % GDP	26.8	29.1	13.0	15.6	21.7	28.4
Debt servicing as % external debt	10.8	9.0	6.1	6.9	11.8	14.9
External financing as % GDP	4.5	6.1	5.1	4.5	5.0	2.5
(of which non-debt creating %)	43	84	50	77	65	98

Source: IMF.

Africa's debt servicing costs as a share of external debt remained, however, considerably above those of Latin America (although below those of Asia). The burden of resource mobilization for debt servicing rose in the other two regions, partly because debt servicing costs increased. However, this burden is still highest in Africa despite falling (from 8 per cent to 6.3 per cent). Exports rose as a share of GDP everywhere. In Latin America and Asia this was in part to compensate for the fall in external financing which was very considerable in Asia at the end of the decade. But, in principle, external borrowing, i.e. debt creating inflows, has become a far smaller contributor to external financing than before.

Strategies

There is no global agency responsible for international policy coordination. For the industrialized countries, the IMF and the OECD, however, are responsible for pointing to lacunae in the interaction of their economic policies. At a regional level recommendations on macroeconomic policy in the EU form part of the growth and stability pact that broadly follows the targets of the Maastricht criteria. A more refined joint approach to economic policy is being developed within the Euro currency area where countries have adopted a common interest rate policy.

A principal global strategy for economic growth encompassing all countries is the promotion of macroeconomic stability. The IMF stresses the need for sound monetary, fiscal and exchange rate policies and closely related structural reforms. In this respect the IMF now also insists that well designed social safety nets should be in place to cushion the poor against the negative effects of adjustment programmes and major shifts in economic policy. The IMF also carries the mandate to oversee the operation of the international monetary system and to define measures which can strengthen the global financial architecture and considerably reduce the risk of financial crises arising. Together with the World Bank the IMF launched the HIPC (highly indebted poor countries) initiative in 1996 for which 22 countries now qualify.

The *Geneva 2000 General Assembly* called on countries to reassess, as appropriate, their macroeconomic policies with the aims of greater employment creation and reduction in the poverty level, largely through maintaining low inflation rates, and increasing and utilizing more efficiently resources allocated to social development

Another manifestation of a global concern to address the issues of slow growth, growing instability and an increasing income gap is the *Global Conference on Financing for Development*. The objective of the Conference is to sharpen the focus of the international community to the financing needs of developing and transition countries and to provide greater coherence in international financial and macroeconomic policies. It is scheduled to take place in Mexico in early 2002. (Box 4.3 reports on some recommendations of a high-level panel, chaired by the ex-President of Mexico, E. Zedillo, set up to aid the process of preparation for the Conference.)

Box 4.5: The Zedillo report

The Zedillo report had the following to say on resource transfer to developing countries: "Even if great strides are made in trade liberalization, domestic policy reform and capital inflows into developing countries, international development cooperation will retain four vital roles in which it has essentially no substitute:

Helping to initiate development in countries and sectors that do not attract much private investment and that cannot afford to borrow extensively from commercial sources. This is the traditional role of official development assistance and of lending by the multilateral development banks.

Coping with humanitarian crises.

Providing or preserving the supply of global public goods. Goods that fall into this category include peacekeeping; prevention of contagious diseases; research into tropical medicines, vaccines and agricultural crops; prevention of chlorofluorocarbon (CFC) emissions; limitation of carbon emissions; and preservation of biodiversity. No individual country has an incentive to pay for these goods and thus collective action is needed if they are to be supplied in sufficient quantity.

Confronting and accelerating recovery from financial crises.

The world has a crucial interest in seeing these four roles funded on an adequate scale ... If the DAC members actually delivered ODA according to the 0.7 per cent target, aid would increase by about \$100 billion per year. With this amount available for international development cooperation, it would be possible to pay for global public goods, to provide sufficient humanitarian relief, and not only achieve the International Development Goals but also provide much more satisfactory levels of official development assistance for the take-off of developing countries.¹

¹Report on the High Level Panel on Financing for Development.

The key question

There are two sets of problems to resolve; one concerns mobilizing resources and using them effectively for social goals and the other designing a macroeconomic policy framework that produces and sustains employment-friendly growth.

ILO response

In promoting sustained output growth developed countries have the advantage that they can more easily manipulate levels of aggregate demand, although they should aim for deficits and surpluses to even out over the business cycle, and their governments can borrow from their large capital markets to finance their deficits to a far greater extent than any developing or transition country can. They can run their economies at the highest level of demand compatible with adding to productive capacity. Inflation matters only when it seems likely that rising prices will interfere with increasing investment. Furthermore, the scope for such expansionary policies is much greater when supply reacts quickly to demand in a competitive non-inflationary environment. Well-managed change, good labour market policies and effective social dialogue can help bring this about.

Once advanced countries can take steps to achieve sustained growth it can well be argued that, in order to benefit the rest of the world, they have an obligation to do so. In times of recession advanced countries should take measures to support demand expansion and employment generation by loosening fiscal and monetary policy constraints. Fiscal policy will to some extent automatically ease in a downturn with reduced tax revenues and an increased need for unemployment benefits which will help stabilize employment. Such "automatic stabilizers" must be allowed to function. But advanced countries must also take into account the distributional effects of expansionary policies and where possible target fiscal loosening to help low income households. In the United States, for example, the "wealth effect" of stock prices on consumption affects principally the richest 40 per cent of households. These are also responsible overwhelmingly for the country's negative household savings rate and, by extension, partly responsible for its external deficit. Stimulating consumption through stronger stock market prices will help the working poor eventually by reviving wage growth but other ways can be found to do so more directly.

In developing countries and in transition countries, the stabilization trap must be avoided, which in many cases requires access to more resources. If such resources cannot be generated internally, increased access to foreign resources is essential. Furthermore, developing countries have economies which are often vulnerable to terms of trade shocks and to financial contagion. While they can be made less vulnerable by structural and labour market transformation, they need to be able to adjust after such shocks in ways which preserve employment gains. International assistance has to be well tailored to such aims.

The ILO has in tripartite statements endorsed the need for reducing financial instability and turning speculative into productive capital flows. One way to achieve this is through appropriate exchange rate arrangements (i.e. avoiding over evaluation) prudent management of liabilities, private sector involvement in crisis prevention and the adoption of globally agreed codes and standards.

All countries have additionally to pay attention to fiscal policy, i.e. the means of resource mobilization and the structure of expenditure. Efforts to generate non-inflationary sources of financing must be constant. Fiscal policy can easily have a bias against employment generation because of ill thought out provisions in tax policy. Government expenditures can also have perverse effects such as supporting unnecessarily labour-displacing technologies (e.g. inappropriate mechanization). The need to ensure that government expenditures raise the education and health levels of those most at risk applies universally and is an acknowledged feature of the Poverty Reduction Strategy Paper process.

Two additional forms of linkage between industrialized and developing countries can be mentioned here and are developed further in the appendix. These are regional integration arrangements and international migration. The first of these is principally a trade-creating instrument but it is increasingly realized that to be effective in that role two other elements are crucial. One concerns a consistent approach to labour standards and labour market regulation and other concerns the coordination of macroeconomic policy. Regional integration cannot be successful where real exchange rates fluctuate highly. The issue of international migration has, of course, very many aspects and needs to be pursued as a major issue.

Policy challenges

- *Greater international coordination of economic stimuli is needed. Recession or near recession in USA, Europe and Japan call for bold action as contraction in these countries not only affects workers there but also, because of globalization, workers in all other countries.*
- *Policies to fight recession and sustain employment levels should be the subject of tripartite debate. Such policies could include a mix of promoting consumption levels, especially of the working poor, increasing transparency in, and liberalizing, markets for goods and services.*
- *Macroeconomic and globalization policies in developing countries should be adapted to the political and institutional capacity of these countries. The stabilization trap should be avoided and more emphasis needs to be put on social dialogue and social compacts with the social partners and civil society to arrive at incomes and wage policies which reduce inflationary pressures.*
- *Developing countries must devise a range of approaches for domestic resource mobilization, including measures to generate a more development-oriented fiscal policy.*
- *For countries at all levels of development fiscal and monetary targets should be linked to targets for employment growth and for the growth of incomes of the poor.*

Part III

Policy lessons and global alliances

Chapter 5

Lessons and alliances

5.1 Policy lessons from the new approach to an employment strategy

Recognize that decent work is a productive factor

Fair and efficient policies, embedded in a framework of rights, crafted through social dialogue by democratic organizations of workers and employers with the State assist in creating wealth by enabling the management of change. For example, well-educated and skilled workers are more productive, earn higher incomes, more readily find jobs, and encourage higher levels of investment. A safe workplace increases productivity at the micro level, while reducing the burden of health care costs at the macro level. Well-designed social protection adds to macroeconomic stability and encourages workers to embrace change. Taking children from work and putting them in schools is an investment in future growth. Decent work is an input into growth and can be attained by all countries, irrespective of the level of their economic development. Promotion of the ILO Declaration on Fundamental Principles and Rights at Work by States, worker and employer organizations, is a priority for moving employment and decent work higher on the policy agenda.

Promote investment and productivity growth

Investment spurs growth and physical capital investment is a prime cause of economic growth. Governments have a role to play by investing in the social and physical infrastructures that attract private-sector investment. Governments choke off investment and growth when their policies misallocate resources and are biased against entrepreneurial and small-enterprise development, the principal source of employment creation. Governments fail to attract investment in their economies when their policies fail to provide good infrastructure, starve the private sector of funds and are neither predictable nor transparent, or when the public administration is quite simply corrupt. Investing in people promotes the higher levels of productivity that encourage growth. The best training programmes are those in which worker and employer organizations jointly devise and in which they have a strong stake. Beyond training, however, the quality of investment climate can be strongly influenced by industrial relations.

Make employment strategy socially and environmentally sustainable

An employment strategy is unsustainable unless it is seen to be fair both globally and nationally. In today's world change is constant and increasingly rapid. Nationally there will be losers in the process. Identifying and mitigating the social costs of change through social dialogue are essential agents in the promotion of change on which economic growth relies. Globally poorer countries cannot be allowed to fall further behind. Environmental sustainability is a challenge that must be met. Economic activities that deplete natural resources and result in environmental degradation are threatening human survival. There are employment consequences of environmental sustainability. These require identification and

management, and the time to begin doing so is now. Here, too, worker and employer organizations are particularly well placed to anticipate the labour market consequences of environmental protection.

Raise the incomes of the working poor

Unproductive and insecure work is incompatible with decent work and adds little to economic growth. Policies can raise productivity of the working poor indirectly by raising the demand for labour and more directly through targeted programmes. The self-employed can be assisted in making better use of their assets, thereby increasing their income. Improving the education and training of the working poor can increase their productivity and incomes. Organizations of and for the working poor can improve the terms on which they sell their labour. These are specific measures that target the working poor, and employment strategies are incomplete when they do not specify such targeted measures and act on them. By taking up the challenge of the working poor, and contributing in an employment strategy directed toward them, worker and employer organizations can increase their own membership.

End discrimination in the labour market

Labour market discrimination based on gender, ethnic origin or any form of prejudice is a violation of human rights. It also has macroeconomic costs through curtailing labour supply and reducing the productivity of a potential job match. Thus women as a group face universal discrimination in labour markets. They receive less education and training than men, earn less income, and face more restricted employment choices. Ending discrimination of all kinds is a policy priority that all governments, workers and employer organizations can immediately pursue, irrespective of a country's level of economic development.

Pursue macroeconomic stability and social progress jointly at national and international levels

Crafting economic and social policies jointly and moving employment higher on the agenda of policy-making are objectives that can be pursued by all countries, regardless of their wealth. They are also objectives that require the participation and support of all the labour market's stakeholders through tripartite social dialogue. Objectives can be prioritised. Indicators can be quantified. Progress can be monitored. International policy coordination will also be required. International policies need: to address the volatility of financial markets; to assist in the process of macroeconomic stability through development aid, debt forgiveness, and making the world trading system more open; to ensure that globalization works for the benefit of all by implementing core labour standards, and to revisit the challenge posed by increasing international migration. Inter-governmental agencies will need to coordinate their actions better. Worker and employer organizations at the international level, among other segments of civil society, need to participate in crafting employment strategy at the international level.

Prepare indicators and benchmarks for successful employment policies

To make a global employment strategy successful there must be benchmarks to support policy making and indicators to measure performance and to facilitate review and comparison. The ILO Key Indicators of the Labour Market (KILM) is a critical step toward the development of a set of tools for evaluating and designing labour market policies in relation to labour force participation, employment, unemployment, educational attainment, wages and compensation cost, productivity and labour cost, as well as poverty and income distribution. The KILM is a work in progress and the New Global Employment Agenda will offer a new framework for the further development of benchmarks and indicators.

5.2 A global alliance for employment

The role of the ILO

The centrality of the ILO in building a Global Alliance for Employment has a fourfold base: the ILO is the centre for normative action in the world of work; the global reference point for knowledge on employment and labour issues; a platform for international debate and negotiation on social policy; and a source of services for advocacy, information and policy formulation.

Within this four pronged approach, the ILO's Decent Work package is distinguished not only by its emphasis on creating productive employment, but also by doing so on a sustainable basis by addressing issues of fairness rights and peoples' needs and aspirations. The ILO will pursue decent work both on moral ("labour is not a commodity") and efficiency ("decent work enhances productivity") grounds.

Box 5.1: A new approach to policy making: Global priorities for national employment policies

The ILO proposes a new approach to employment policy making by introducing a small number of global employment priorities to be used as a basis for global alliances and for national action plans in all countries. The ILO proposes the following policy priorities for the review, rethinking and reorientation of all policies of importance for employment:

- ***decent work as a productive factor***; decent work is itself a factor leading to increased productivity and economic growth;
- ***poverty alleviation***; give priority to productive employment to the working poor as basis for all development strategies and policies;
- ***sustainability***; integrate economic, social and environmental objectives in all global strategies and national policies and give priority to new technologies, production methods and consumption patterns, through which economic growth can be decoupled from pressure on natural resources;
- ***gender equality***; mainstream equal opportunities between men and women in all global strategies and national policies and ensure that women are enabled to fully contribute to and benefit from economic and social development;
- ***employability and adaptability***; give priority to life long learning to make people ready for existing and future jobs, and strengthen social dialogue to facilitate flexibility of enterprises and to promote workers security in employment;
- ***entrepreneurship and productive investment***; give priority in global strategies and national policies to measures to make it easier to start and run enterprises, while respecting labour and environmental standards.

These priorities are structural and have the aim of improving the functioning of labour markets and economies. Successful improvements in these respects pave the way for growth and employment oriented macroeconomic policies:

- ***macroeconomic policies for growth and employment***; make full, productive and freely chosen employment an overall objective of macroeconomic strategies and national policies.

A Global Alliance for Employment will have the following elements:

- ***National governments***. National governments are responsible for employment policy and the ILO's global alliance will offer a framework for national policy making, placing employment at the centre of economic and social policies. With this new emphasis on employment the ILO will provide governments with concrete and meaningful guidelines for the formulation of national employment strategies based on the goals of the Employment Policy Convention, No. 122.
- ***The social partners***. The social partners are crucial in achieving national and international consensus on, first, a new Global Employment Agenda and then, establishing a global alliance for employment. The social partners need to play a major role in both the design of a global strategy and in its implementation nationally and locally. Management of change in the labour market must be the responsibility of all the social partners and social dialogue must be a central element of labour market governance. The more the social partners can do together, the more credible, concrete and successful the strategy will be.

- *Strategic alliances at the global level.* The ILO invites all UN agencies and the Bretton Wood institutions to contribute to the further development of the Global Employment Agenda and the preparations for the next step, A Global Alliance for Employment. The form, content and timing of these contributions can be decided jointly by the ILO and the other agencies. The review of existing global strategies can be a basis for such discussions. A first such strategic alliance is successfully in operation between the UN, the World Bank and the ILO on youth employment with the active involvement of the Secretary General of the UN, the President of the World Bank and the Director General of the ILO.
- *Strategic alliances for regional coordination.* There is an immense variety in economic and social conditions among different regions and countries in the world. The Agenda recognizes that the success of employment policies depends on how well these regional specificities can be taken into account. The ILO invites all regional political as well as economic organisations, including the development banks, to contribute to the shaping of the Agenda and to the building of a strong alliance for more and better jobs.
- *The Global Compact.* This initiative taken by the United Nations Secretary General involves business in implementing universal values, including those set out in the ILO Declaration on Fundamental Principles and Rights at Work. The Global compact has become an important reference point for the international business community and is aimed at improving corporate practice in the social arena and at encouraging dialogue between business and a range of social actors. The ILO invites the UN Global Compact to take an active part in the building of a global alliance for employment.

This report is a dynamic tool to be updated and developed through discussions at the Global Employment Forum, through discussions with UN agencies and the Bretton Woods institutions and through debate in the ILO's Governing Body.

Appendix

Regional and global constraints to employment growth and poverty reduction

1. Introduction

The new global agenda for employment must take account of the wide diversity in the nature and dimensions of the employment problem in different parts of the world. Given the broad components of a new approach to an employment strategy outlined in the first chapter, policies to be pursued by a particular country depend a lot on its level of development, the form of its insertion into the global economy, its economic and human resources and the strength of its labour market institutions as well as the quality of its administration. These determine the kind of constraint a country faces in pursuing its employment goal.

The next section 2 reviews systemic problems facing the developing countries. Sections 3 and 4 investigate major employment problems in the transition countries of Central and Eastern Europe and of OECD member countries, respectively. Global issues are discussed in section 5.

2. Developing countries: The stabilization trap

A **key constraint** on employment expansion in developing countries is given by two factors. The first is the difficulty of achieving macroeconomic stability, i.e. a sustainable balance of payments and non-inflationary fiscal deficit, within a context of transparent governance. The second is the difficulty of turning a good macroeconomic context into the creation of employment at rising productivity levels. To a large extent this reflects a lack of business investment and a lack of skills.

In their economic governance many developing countries find themselves constrained within a vicious circle. Lack of revenue, often exacerbated by falling terms of trade and revenue from exports, interacts with competing domestic demands and results in macro imbalances. Often, stringent stabilization measures are put in place to restore macro stability. These measures may result in cutbacks in investment in human resources development, in physical and social infrastructure and in support to vulnerable and disadvantaged groups. This limits the economy's capacity to generate growth and may heighten social unrest, finally worsening rather than improving overall macro balances. Without additional external resources many developing countries find it extremely difficult to break out of this vicious circle (see Box 1) for the Andean countries.

Table 1: The stabilization trap: Developing regions inflation (CPI), per cent, fiscal balance (FB), per cent of GDP, growth (GDP), per cent: Median values

	1993-95			1998-2000		
	CPI	FB	GDP	CPI	FB	GDP
Africa ¹	11.8	-5.2	3.3	4.9	-3.1	3.7
Developing Asia ²	8.4	-3.4	5.6	4.4	-2.4	4.2
Middle East	5.9	-6.5	4.6	2.1	-2.3	3.0
L.A.C. ³	10.2	-1.3	3.6	4.6	-2.6	3.5

¹ all Africa excluding Egypt and Libya.

² excluding the Republic of Korea, Singapore and Taiwan (China) and Hong Kong (China).

³ Latin America and the Caribbean.

Source: IMF World Economic Outlook, 2001.

Table 1 shows how during the 1990s developing regions successfully cut their price inflation often by over 50 per cent and ended with rates commonly under 5 per cent. They also ended with negative fiscal balances in a range that clearly could largely be financed by non-inflationary means. They thus generally achieved some of the major objectives of stabilization policy, particularly since exchange rate stability should follow relative price stability. But growth mainly remained elusive. Increasingly the "fundamentals" are correct, but that is not enough to bring growth. There are perhaps three main reasons for this; one, as with the Asian financial crisis, is that weak financial structures can coexist with a strong fiscal position and can collapse under stress, bringing down the real economy as well. A second is that the "fundamentals" have been achieved at a high price in terms of foregone, perhaps half-finished, growth-promoting expenditures. A third is that the micro economic framework is protecting inefficient industries with little chance of future profitability and promoting neither competitive industries nor skill development, and may additionally be non-transparent and unpredictable. The risk nonetheless is that without growth countries are politically unable to sustain the price and exchange rate stability they have achieved, and give in to populist pressure to expand expenditure without proper financing.

Box 1: From stabilization to employment generation: Andean countries

Over the 1990's economic growth in the five Andean countries¹ has on average been higher than in the 1980s (2 per cent). Yet, growth has been insufficient to generate employment for a labour force growing at 3 per cent per year on average, other than in the bulging urban informal sector.² On average six out of ten new jobs were generated in small informal enterprises and in self-employment and in commerce and services. Per capita GDP increased by 1.6 per cent annually over the 1990s, but real wage increases were concentrated in skilled formal sector jobs and wages in the informal sector either fell or stagnated.

The Andean countries seem to have entered a prolonged phase of permanent stabilization with painstaking progress in respect of lower inflation and manageable fiscal and current account deficits conditional upon relatively low growth. A fixed nominal exchange rate has been the preferred instrument to bring and hold inflation down. The inevitable appreciation of the real exchange rate has tended to strain the current account. Then, initially, the non-tradable sector would expand rapidly through access to cheaper imports and more credit, while the tradable sector was hampered by an increasingly uncompetitive exchange rate. This tended to confirm the countries' high dependency on exports of a few primary commodities (oil, natural gas, minerals, sea products, coffee and bananas), with little diversification and certainly no increase in labour-intensive exports of manufacturers. In the late 1990s Colombia, with the most diversified economy, exported manufactured goods for less than one-sixth the value of Malaysia's goods exports. Additionally, domestic production competing with imports was increasingly displaced, particularly in manufactures and agricultural products.

Under such conditions, any acceleration in the rate of growth becomes rapidly unsustainable, as imports soar, domestic inflation accelerates and the exchange rate appreciates. Eventually, mounting pressures on the exchange rate can force a devaluation as in Colombia in October 1999 or even a drastic change in monetary regime as in Ecuador in January 2000. But the benefits of such devaluations are usually short lived as the price elasticity of primary commodity exports tends to be low and the supply response of non-primary commodities is tied to multiple structural problems.

¹ Bolivia, Colombia, Ecuador, Peru and Venezuela account for 22 per cent of the total population of the Latin American and the Caribbean region, and 13 per cent of its GDP, with average (weighted) GDP per capita 61 per cent of the region's average.

Of course, given the risks inherent in macroeconomic instability, stabilization policies are often essential. On occasion, however, they have been self-defeating. Focussing only on an immediate need to stabilize the economy has led to the adoption of policies which have destroyed capacity, e.g. when high interest rates set to defend a currency made companies bankrupt, forced unprotected workers to return to the countryside and, most seriously, caused children to be taken out of school, either because education budgets were cut, or parents were unemployed, and child labour to rise. It is in this interplay between overcoming short-term constraints and protecting long-term social and economic concerns that the success of adjustment policy must be tested. Thus, even when external imbalances obviously need to be reversed and inflation reduced, efforts must be made to sustain the demand which will keep capacity utilized (subject to a likely need to adjust production between sectors) employment high. Such occasions often call for a degree of moderation in nominal wage claims, which will be accepted by workers' organizations if they feel themselves involved in the design of adjustment programmes. If stabilization is achieved even partly through social dialogue, this sends a clear message on the state of industrial relations to domestic and foreign investors which, in turn, can shorten the stabilization period by attracting new investors. It is precisely in this area that the ILO has for a number of years been in discussion with the Bretton Woods institutions and has urged upon them the need to consult widely with Workers' and Employers' organizations in advising governments on adjustment and stabilization programmes.

Of course the process of adjustment following liberalization is often conflictual. Adjustments and restructuring require the forging of fair compromise and consensus. Thus, for instance, Barbados, during the 1990s, devised special social compacts (protocols) among the key stakeholders on aligning labour market and macroeconomic reforms for reviving growth and employment generation (see Box 2 on Barbados). As the example shows, consensus can provide a strong impetus to creating the necessary environment for sustained development. The success of increasing liberalization involves resolving conflicts and issues and drawing up safeguards against failures in income and employment entitlements.

Box 2: Barbados: Protocols and partnerships on critical economic and social policy decisions

In the wake of massive criticism both by workers' and employers' groups, and public protests against the proposed structural adjustment programme (SAP) in 1991, a process of renewed cooperation among the social partners was initiated predominantly by the church leadership. Workers felt that the SAP proposal would entail a heavy social price, and an uneven burden on the poorer workers. The process evolved into what is known as the first protocol: *The protocol for the implementation of a prices and incomes policy, 1993-95*. This tripartite agreement was primarily a truly collective effort to get the economy out of the crisis, and through various measures to minimize layoffs and social hardships. The parties agreed to avoid devaluation; to focus on competitiveness and productivity; to accept wage freezes until wage increases could be effected through productivity gains; to consider retrenchment as a last resort, that too, after ensuring at least one earner of a family retained his or her job, etc. The agreement fostered a *national resolve to overcome the economic crisis*, and indeed helped the political process to implement difficult economic decisions to achieve stability and resumption of growth.

The success of the first protocol was followed by the second: *The protocol for the implementation of a prices and incomes policy, 1995-97*. In the backdrop of moderate growth, this sought to deepen the role of and *broaden the agenda of social dialogue to effect better articulation of macroeconomic and labour market policies*. The parties moved away from "wage freezes" to "wage restraints", in a way that Barbados sustained its international competitiveness through higher productivity. Performance-related pay and incentives were introduced. The third protocol: *The protocol for the implementation of a social partnership, 1998-2000*, sought to consolidate the perceived gains from partnerships in economic and social development; to maintain a peaceful industrial climate; and to reduce income disparities through employment promotion and other measures of social inclusion.

The three protocols, covering the period 1993-2000, are associated with (i) an average annual economic growth rate of 4 per cent; (ii) an inflation rate of close to 2 per cent; (iii) a decline in unemployment from nearly 22 per cent in 1994 to 9.8 per cent in 1998.

3. The transition countries of Central and Eastern Europe

Political change

Political changes opened the door to long delayed economic and social reforms in Central and Eastern Europe. The combination of internal (systemic) changes, macroeconomic stabilization, the rupture of links between enterprises and sharply increasing prices of energy and other material inputs and external shocks (the collapse of the Comecon market and the break-up of the USSR) resulted in a deep transition crisis. Employment fell drastically, nearly everywhere, and a greater polarization emerged in conditions of work between those workers who were attractive to new, market-oriented enterprises, and those who were not. Open unemployment emerged but frequently the State lacked the resources to provide anything but the minimum of services and income support to job seekers. Problems in returning to a more satisfactory employment situation include stimulating the growth of

new enterprises to absorb the unemployed and hoarded labour, reintroducing a degree of labour market regulation where this was jettisoned and building tripartite institutions, and improving the State's resource mobilization capacity.

Labour shedding

In Central and South-East Europe (CSEE) and the Baltic States, the necessity to survive in new economic conditions forced enterprises to shed redundant labour and raise labour productivity, which often grew strongly (Table 2). (Although the data in the table begin in 1992 a great deal of labour shedding took place in 1990-92.) As a consequence, the countries experienced large employment losses and an acceleration of open unemployment. New recruitment primarily concerned flexible and competitive workers who usually change their jobs without any (or after only a short) unemployment spell. Hence, longer-term unemployment mainly hit workers disadvantaged by their low or obsolete skills, lack of work experience, family obligations, poor health or low mobility, such as women with small children, unskilled workers, disabled persons, the elderly and certain ethnic minorities. With labour market and social policies mainly oriented towards reducing the supply of labour many of the unemployed withdrew from the labour market while others took informal, usually casual jobs. Employment reduction continued for many countries into 1998-99, although on average employment growth in Central and Southeast Europe picked up. More recently in many countries open unemployment has started to grow again as a result of accelerating structural change, partly in anticipation of their EU accession.

Table 2: Annual growth of employment and productivity, 1992-97 and 1998-99, per cent

	1992-97		1998-99	
	Employment	Productivity	Employment	Productivity
<i>Central and Southeast Europe</i>				
Unweighted average	-0.7	3.4	0.9	1.7
Poland	1.0	4.8	0.8	3.7
<i>Baltic States</i>				
Unweighted average	-2.4	1.7	-1.1	3.9
<i>European CIS</i>				
Unweighted average	-1.6	-2.7	-0.6	4.4
Russian Federation	-2.0	-2.9	-0.5	-0.4
Ukraine	-1.5	-7.0	-1.6	0.5
<i>Asian CIS</i>				
Unweighted average	-0.3	-4.1	neg.	3.9

Source: UN/ECE.

The Commonwealth of Independent States (including Central Asia) experienced somewhat different labour market developments. Although they suffered a much deeper and protracted fall in production, employment losses were generally similar in 1992-97 to the countries of Central and Southeast Europe. The difference came in their willingness to accept very large falls in labour productivity in the mid-1990s. By the late 1990s, however, this negative productivity trend had been largely reversed.

Labour turnover

All formerly planned economies used to have high rates of labour turnover. For many workers the easiest way to earn a higher salary was through changing the employer, since this did not usually demand any change of residence or required skills. Separations from enterprises were almost exclusively voluntary and were combined with large recruitment. This practice has persisted in state-owned and privatised enterprises in most CIS countries. Although very many of these enterprises are struggling with economic and financial problems, the number of recruitments and separations remains high, separations are again largely voluntary and the enterprises maintain high levels of employment, part of which is actually redundant. However, some voluntary separation may well in fact reflect the non-payment of wages. To cope with the high labour costs resulting from low labour productivity, enterprises often rely on working time and wage flexibility achieved through such measures as administrative leave, a shortened work-week, wage cuts and delayed wage payments. Their behaviour contrasts with that of newly established firms, usually small ones which are much readier to cut employment. Many more people in the CIS countries are working in the informal sector to supplement poor income from their main activity or low transfer payments. Registered unemployment remains low but labour force surveys show higher levels and a rising trend.

Labour market institutions

The two groups of countries have in fact opted for different models of labour management. CSEE countries and the Baltic States have tried to shift the responsibility for supporting redundant workers away from enterprises and onto public institutions. Enterprises have reduced their apprentice schools and training centres, housing, child care facilities, health care and rehabilitation centres. They often recruit workers with appropriate skills and experience instead of retraining their own staff, or hiring school leavers without experience. These countries have established or reshaped their labour market institutions with a network of central, regional and local labour offices, offering a wide range of employment services to jobseekers and enterprises as in developed market economies. They have liberalized employment protection legislation, introduced unemployment benefit systems, reshaped social welfare systems and launched active labour market policies.

However, in practice, the capacity of their national employment services (NES) to provide effective assistance to jobseekers is usually limited. They are frequently understaffed in relation to a heavy workload, preventing an individual approach to harder-to-place clients. Weak coordination of work within the NES as well as frequently unsatisfactory, purely formal cooperation with local governments, employers, trade unions, education facilities and NGOs substantially reduces its efficiency.

Labour market institutions in the CIS countries are much weaker. Funds available do not allow proper staffing of labour offices and the extent and quality of employment promotion services and programmes is often modest. There are substantial delays in payment of unemployment benefits, which are on average low. The general lack of good job opportunities in the formal labour market aggravated by restricted geographical mobility and poor assistance provided by the NES all act to force workers, especially the less competitive, to stick to their low paid but relatively secure jobs in state or privatised enterprises (or change

them for jobs of similar quality). Since policy-makers are also interested in keeping redundant workers within enterprises and not escalating social tension by higher open unemployment, regional and local governments provide concessions to such 'socially responsible' enterprises. This has certainly contributed to a moderation of social pressures, limited employment losses and a slow increase in unemployment but it has significantly slowed down the allocation of labour to more productive jobs and contributed to substantial delays in structural adjustment in the CIS countries.

Working poverty

Not surprisingly a new type of poverty has emerged in the transition countries. It affects the younger working-age population, including low wage earners, the unemployed and underemployed, and workers whose wages are not paid. The minimum wage has fallen below the minimum subsistence level in many countries; especially in the CIS countries there is widespread non-payment of wages. Elderly persons have also often suffered a severe decline in benefit levels.

The most striking indicator of rising poverty is the decline in life expectancy and the rise in mortality rates. In the CIS countries and the Baltic States, average life expectancy is currently lower than in 1989. The declines have been larger for men than for women. In the Russian Federation, life expectancy for men decreased from 64.2 years in 1989 to 57.6 years in 1994 and by 1997 had only recovered to 60.9 years.

The major constraint

The transition countries are generally still a long way from full employment. Many enterprises are scarcely profitable, high taxes and social security contributions encourage informalization and reduce formal employment while there is little consistency between employment policy and economic and social policies in general. In addition labour mobility is low while labour market policies are oriented too much towards reducing labour supply and not enough towards retraining. At heart the constraint on employment growth lies in the difficulties inherent in designing and financing good labour market policies and programmes and in promoting new employment creating enterprises.

4. OECD member countries¹

A marked feature of much of the 1990s was the enormous difficulties some European countries (and at the end of the decade, Japan) had in creating employment. Some turn around in the late 1990s showed that an employment creating potential exists but it remains weak in a number of countries and is threatened by current developments. A number of constraints remain to be overcome if full employment is to be achieved. There must be a sustained high demand for labour, which requires long periods of growth uninterrupted by inflation worries. There must also be negotiated flexibility in the labour market and a fair deal for new enterprise creation as well as an avoidance of long-term unemployment and subsequent loss of employable skills.

¹ OECD member countries also include a number of countries in transition and emerging economies whose employment experience is not reflected in this section.

Experience with unemployment

Stark differences emerged in the employment experience of the OECD member countries in the late 1990s. While, in the early 1990s less than 2 percentage points separated the unemployment rates of the USA and the EU (see Table 1.1), by 1999 the difference was as high as 5 percentage points. While in the USA the unemployment rate fell every year from 1992 (and in Australia from 1993) it reached a peak in Germany in 1997 and in Italy in 1998. But at the same time that some European countries were experiencing great difficulty in reducing their unemployment rates others were fairly successful. By 1999 rates were virtually halved by annual reductions in Denmark and Ireland from 1993, in the Netherlands from 1994 and reduced by 40 per cent in the UK, from 1993. To what extent the experience of these countries is applicable in other European countries is a subject of debate. Following their experience may require either the integration and operation of institutions which are not so well developed elsewhere (i.e. tripartite negotiation and pacts) or an acceptance of increased wage dispersion, as in the UK. Echoing this the EU's employment guidelines seek a balance between "corporatism" and market forces.²

Box 3: How applicable is the labour market experience of 4 smaller European countries?

In the late 1980s and throughout most of the 1990s labour market outcomes in 4 smaller EU countries, Austria, Denmark, Ireland and the Netherlands, while themselves differing considerably, were generally more successful than those of the EU as a whole. Their relative success owed much to a negotiated approach to the formulation of labour market policies, based on social dialogue. Social pacts signed in the Netherlands, Ireland and Denmark, and ongoing tripartite concertation on national employment issues in Austria, expressed the desire of the tripartite partners to solve the problems facing their economies through a joint approach to raising competitiveness without undermining the welfare state. Moderate (i.e. below productivity) wage claims were traded-off against tax cuts, working time reductions and labour market measures, including improving the conditions of those in part-time work. Such steps were possible because of a history of tripartite consultations on national issues, a strong urge to reduce unemployment and a shared awareness of the need for companies to become more competitive within the European single market. As small countries dependent on large countries for their export markets all were aware that their scope for an individual exchange rate policy was very limited. Obviously some larger European countries had greater freedom of action in that respect although inflation control was seen as an important goal everywhere. Germany, of course, faced a very different set of issues with reunification in the early 1990s. But some large countries pursued highly deflationary policies and secured only wage moderation and not employment expansion.

Employment growth in the late 1990s

Generally by the late 1990s employment growth was picking up, with the major exception of Japan where it fell in 1998-99 (Table 3). Otherwise, in those two years substantial annual rises were recorded in Ireland, the Netherlands, Italy, Portugal and Spain, and in France. The USA over the longer period 1987-99, admittedly with a higher population growth rate and proportionately more immigration, had a rate of employment growth above all countries except the Netherlands, Ireland and, another high population growth rate country, Australia. This raised the employment to population (15-64 years of age) ratio of women in the United States to 67.6 per cent by the end of the 1990s. This is lower than in the

² The ILO has pointed out that a very different labour relations systems can be compatible with tripartism. ILO, Tripartite consultation at the national level on economic and social policy; Report VI to the International Labour Conference, Geneva, 1996.

Nordic countries but above that of e.g. Germany and the Netherlands and far, far above that in Southern Europe (38 per cent in Italy and Spain).

Table 3: Selected OECD member countries: Labour productivity and employment growth

Country	Labour productivity		Employment	
	1987-97	1998-99	1987-97	1998-99
USA	1.1	2.6	1.4	1.5
Australia/Canada/NewZealand	1.1	2.1	1.3	2.5
Japan	1.7	1.0	1.0	-0.8
EU	1.8	1.1	1.1	1.5
of which Italy/Portugal/Spain	1.8	-0.1	0.3	2.5
France	1.6	1.1	0.3	1.0
Ireland	4.5	3.1	2.2	6.5
Netherlands	0.6	1.1	2.3	2.0

Source: KILM, 2001.

What has to be borne in mind is that the acceleration in employment growth in the late 1990s in Europe was largely at the expense of productivity growth which generally ceased to expand at its previous rate (see Table 3). Overwhelmingly in the EU output growth was insufficient to allow faster rates of both (labour) productivity and employment. The USA and Australia, however, enjoyed a rise in both variables (the “new economy”), although the Australian labour market has been nowhere near as tight as that of the USA.

This discussion suggests three considerations. One is that that part of the acceleration of employment growth in the EU which was not caused by faster output growth at constant rates of productivity growth was probably due to the introduction of new labour market measures. These included greater "activation" of unemployment benefits (reducing welfare dependency) and more direct support for job seekers sometimes through job subsidies, especially for public sector jobs. Such measures clearly had some success which can be built on. They also usually resulted in more people in absolute numbers experiencing unemployment for a shorter period. Shorter periods of unemployment for more people may be less harmful than vice versa and should make the labour market function more efficiently. The second is that those labour market measures were principally aimed at helping the categories of workers who were the most difficult to place and that those measures created relatively low productivity, and thus low wage, jobs. They did not turn the low skilled unemployed into well trained workers. Statistically this lowered the overall rate of labour productivity growth and to some extent would have delayed the emergence of a new global division of labour. The labour market measures can therefore be improved. The third consideration is simply that faster overall growth would be more likely to produce an acceleration in both employment growth and productivity growth, and that for various reasons output growth has been held back.

Growth of wages and productivity

One obvious reason for output growth in the EU being held back in the mid-1990s was the efforts of many countries to adhere to the Maastricht treaty convergence criteria. These basically called for reduced government deficits and reduced inflation. In turn this was necessary because earlier imbalances were too high. One way or another this led, at different times, to nominal wages rising more slowly than nominal GDP per worker (Table 4). Sometimes this was formalized in tripartite agreements (Box 7). Other countries pursued extremely deflationary policies, France being perhaps the most extreme example, although in order to meet the Maastricht criteria Italy had to reduce both inflation and government debt, and employment suffered in consequence. However, under the very different labour market institutions of the USA nominal wage growth was also relatively low (in relation to GDP) but employment rose. There, as in the UK, the dispersion of wages increased which held back nominal wage growth by restricting the nominal and real wage growth of the less skilled.

In the late 1990s this picture began to change and in many countries nominal wage growth increased in relative terms (see Table 4). Partly this was because deflationary policies were no longer felt to be so necessary, although very low rates of price increase are still being targeted by Central Banks. In some countries it was because labour markets were becoming so tight that nominal wage growth could not be held back behind the growth of nominal GDP per worker, as in the USA where, in addition, the trend in wage dispersion was apparently reversed in the mid-1990s. Clearly there has to be a general balance between wage and productivity growth but wages can hardly be expected to lag behind productivity for decades.

Table 4: Selected OECD member countries: Growth of nominal GDP and of compensation of employees (CE) per employed person

Country	1987-97		1998-99	
	Nominal GDP	CE	Nominal GDP	CE
USA	4.3	3.6	4.1	4.6
Australia/Canada/NewZealand	3.7	3.8	2.2	2.4
Japan	2.8	-0.7	2.2	-0.6
EU	5.2	4.5	2.8	2.4
Of which Italy/Portugal/Spain	8.4	8.2	2.7	1.9
France	3.9	2.9	2.1	1.8
Ireland	6.5	3.9	5.9	4.3
Netherlands	2.7	2.5	2.6	2.8

Source: OECD.

Real growth rates do not, of course, depend solely on a government's fiscal policy stance and on sustaining nominal demand. Ireland's high rate of growth, for example, has been based on high rates of investment, the availability of skilled labour and low rates of taxation. Growth in many countries is likely to respond to investment in ICT which, along with the willingness of the rest of the world to finance a large current account deficit, is credited with boosting the US economy.

Long-term unemployment

One striking difference between the labour market institutions and practices of different advanced industrialized countries is reflected in the length of spells of unemployment. In 2000 only 11 per cent of the unemployed in the USA had been out of work for six months (12 per cent for men, 10.5 per cent for women). In no other advanced country was the rate so low; Norway was closest at 16 per cent. The rate in the USA had furthermore fallen since 1997 (from 16 per cent). During the same period the rate of the EU did fall, from 68 per cent to 63 per cent. But clearly this share of those unemployed for at least six months in the EU is very high and shows that social policy has a long way to go before unemployment spells can be made really brief. A corollary is that employment to population rates of older workers (aged 55-64) are below 40 per cent in the EU and nearly 58 per cent in the USA. Denmark's rate is close to that of the USA and Norway's is higher. Employment rates for older women are particularly low in the EU, at 28 per cent, compared to 50 per cent in the USA. These data suggest that any EU social policies are still oriented to reducing the size of the labour force through encouraging early retirement.

5. Global constraints: "Poverty anywhere constitutes a danger to prosperity everywhere"

(a) Growth and global governance

The international dimension of poverty and of low quality employment is an increasing cause of concern partly because the income gap between advanced countries and many developing countries is widening. In addition global growth has been generally weak. Not only is faster growth needed globally but that growth must benefit the poorer countries much more than it is currently doing. Achieving faster growth globally begins with the 7 major advanced countries³ which account for 45 per cent of world GDP. It is the interaction of those, and other advanced, countries with the rest of the world which is at the heart of the concern with globalization.

To the extent possible what is needed as well is greater stability in growth. Greater stability world wide would facilitate economic management in developing countries and remove one of the causes of their own cycle of structural adjustment, stabilization and stagnation. Financial instability has often been at the root of instability in the real economy and reducing it will allow the longer periods of macroeconomic expansion which is needed for full employment.

In middle-income countries inflows of capital have allowed current account deficits to be sustained and currencies to be over-valued. However, a sudden withdrawal of capital caused by a change in the political environment, a drop in confidence in the banking system or by fears of contagion from elsewhere lead to huge crises. (After the Asian financial crisis the dollar price of exports from the countries affected dropped considerably, negatively affecting other exporters of similar products. A devaluation by China would have worsened

³ i.e. the USA, Japan, Germany, France, Italy, the UK and Canada.

the situation further, but was rejected by the Chinese authorities). This potential for instability with its negative consequences for employment is of serious concern. Whether taxation (a Tobin tax) or other means of control could reduce the speculative nature of such flows is an issue for debate. Certainly the liberalization of capital flows came late onto the OECD agenda. A recent statement by the Group of 20 called for the implementation of the “emerging international consensus on policies to reduce countries’ vulnerability to financial crisis, including through appropriate exchange rate arrangements, prudent liability management, private sector involvement in crisis prevention and resolution and the adoption of codes and standards in key areas”.⁴

In 1998 and 1999 much of the rebound of Asian countries from the effects of their financial crisis was caused not just by their own internal flexibility in reorienting production but also by the fast rate of growth of the US economy and its even faster rate of import growth. In that respect the contribution of the US exceeded that of the EU. While per capita income growth in the 1990s was in fact little different (at least until 1998) in the EU and the US, population growth in the latter was higher because of both a higher fertility rate and higher levels of immigration. Consequently overall US growth and demand for imports was higher and more beneficial to the rest of the world. Today (2001) even with probably a slightly higher per capita income growth, the EU is unfortunately unlikely to take over the role of “importer of last resort” partly because the EU’s growth pattern is highly export-oriented. The US probably remains in a better position to refloat the world economy. The Federal Reserve, unlike the European Central Bank, has an obligation to consider employment targets, on the one hand and, on the other the US is more likely to continue a current account deficit.

For the rest of the world the issue of the “coordination” of economic policy between the EU and the USA has obviously gained great prominence. But there is no international forum – such as an Economic and Social Security Council – where developing countries can join in an informed debate on world economic management and proposals for a recovery plan threshed out. Such a body would also be able to link the decisions taken elsewhere on trade or financing to development policy. This lack was addressed by the “Zedillo” report (Report of the High Level Panel on Financing for Development, chaired by E. Zedillo). It proposed a global Council, which through its political leadership, would provide a long-term strategic policy framework to promote development, secure consistency in the policy goals of the major international organizations and promote consensus building among governments on possible solutions to issues of global economic and social governance.

(b) Regional integration and North-South economic relations

One phenomenon which impacts on the relationships of countries at different levels of development and which provides a clear focus on issues of labour market regulation and labour standards is that of regional integration. That there is scope for further regional integration arrangements, EU association agreements etc. confirms that trade liberalization is far from complete, either in the developed or developing countries. Indeed it is a legitimate complaint of many developing countries that reversals of liberalization through e.g. anti-dumping and other provisions to protect markets from competition from cheaper sources can occur arbitrarily and overnight. In the EU the completion of the single market reinforced the

⁴ Source: IMF Survey Vol. 29 No. 21, November 6, 2000.

attention given to the harmonization of labour standards since it was considered that the application of looser standards can raise business profits, although there is no straightforward link from loose labour regulation to attracting new investment. The labour standards debate has become far more acute within NAFTA given that it groups countries at very different income levels where there is no mechanism to harmonize labour standards and only a relatively weak regional mechanism to ensure the enforcement of domestic labour standards. This is unlikely to change if the Free Trade Area of the Americas comes into being. MERCOSUR, among more traditional preferential trading arrangements between developing countries, is unusual in attempting to aim at the common improvement of labour standards. EU association agreements give a weak handle to the European Union to influence domestic policies in the separate partner countries.

Preferential trading arrangements of all kinds are very likely to cause some trade diversion, i.e. the replacement of imports from third parties by purchases from partners. Such losses may be compensated for if the arrangement subsequently grows strongly. However, the risk of adjustment costs being imposed on others following trade initiatives must always be considered. Thus, to take another example, initiatives to favour imports from least developed countries can exclude countries such as India. Conversely curtailing long standing preferential arrangements, e.g. of Caribbean bananas into the EU, also generates considerable adjustment costs. Applying the principle of free trade wherever possible, plus direct labour market and other income generating support to workers negatively affected whether at home or abroad, seems the usually most reliable route for the industrialized countries to contribute to an equitable world trading system.

This principle must also apply to e.g. the agricultural policies of industrialized countries where agricultural protection has no justification as an anti-poverty device (which it might have in some developing countries). Liberalization in this area might indeed help middle-income country exporters more than low income ones, but it would be in the self-interest of the vast majority of consumers within the developed countries. (Whether switching public support to agriculture away from means to boost output of crops and livestock using current production methods towards support for organic farming or preservation of the rural environment would lower protection against developing countries' farm exports is unclear. Introducing better farming methods in the North and the scope for greater agricultural imports from the South are usually treated as two separate issues.) Self-interest should also lead industrialized countries to a rigorous approach to the regulation of the activities of their banks and financial institutions world wide.

Some obligations of rich countries towards poorer can thus be seen as in the general self interest of their population and indeed often amount to the removal of distortions imposed at the behest of special industrial interests. To what extent the weakening of patent rights and the use of escape clauses from TRIPs (trade-related intellectual property) rules falls into this category of special versus general interest is a matter for debate. It should be mentioned, however, that while in some respects developing countries are anxious to take steps to make local access to new products and technologies easier, this is not always so. As will be seen below the dissemination of ICT use is often held up by a reluctance to liberalize fully the conditions determining its supply.

Box 4: Ensuring fair implementation of the TRIPS agreement

Under TRIPS countries can use compulsory licensing – permitting the use of a patent without the consent of the patent holder – in a number of circumstances, which they must embody in their own legislation. Typical uses are for public health emergencies and as antitrust measures to maintain competition in the market. TRIPS also allows countries to choose whether or not to permit patented goods to be imported from other countries where they are sold by the same company but more cheaply. Many industrial countries include these measures in their law and practice as part of their national strategy for using intellectual property rights. Yet under pressure and without adequate advice, many developing countries have not included them in their legislation, or are challenged when they try to put them to use. These legal provisions rarely grab public attention – but the development consequences of their unfair implementation can. The strongest example is the recent high-profile debate on developing countries' access to HIV/AIDS drugs. It has increased public awareness of the far-reaching implications of intellectual property rights and highlighted the urgent need for fair implementation of TRIPS.

(c) International migration

Conservative estimates place today's migrant worker population at between 100 to 120 million people. More and more states are admitting foreign labour either temporarily, as a buffer to cyclical fluctuations in their economies, or for more permanent stay, to augment their human capital and to forestall the ageing of their populations. A trend is clearly emerging for the global integration of labour markets for the highly skilled. However, many countries even now face significant problems with the full economic, social and political integration of their immigrant communities.

The UN Population Division believes that the growth of the global population of migrants has been accelerating and reached an annual rate of 2.6 per cent during the second half of the 1980s. Rates were much higher for some regions than others, and for developing countries as a whole compared to the more developed. For the OECD member countries the rate of immigration clearly slowed down during the middle of the 1990s. Between 1988 and 1998 the number of migrant workers in the OECD member countries was reported to have risen by nearly 28 per cent, but difficulties in accounting for clandestine immigrants suggest that this is an underestimate. In that period the share of foreigners in the total population rose in 17 out of 20 OECD member states. The number of countries that receive migrant labour has almost doubled over the past three decades and include resource-rich countries in the Persian Gulf, transition economies like the Czech Republic and Kazakhstan, and developing economies like Cote d'Ivoire, Thailand and the Dominican Republic.

As the "knowledge economy" develops the competition for highly-skilled foreign technicians and professionals in the more advanced countries has intensified. The United States, for example, raised its annual quota for H1B visas reserved for professionals and skilled workers from 60,000 to 90,000 between 1990 and 1997, and raised it again by nearly 70 per cent in 2000. The German Government followed suit with its own "Green Card" programme to induce computer and information technology specialists to enter and work in the country. Canada and Australia are amending their "points systems" to give more weight to skills in certain technology fields, while the United Kingdom has adopted a "fast track" procedures for issuing work permits for certain occupations. Immigration policies in advanced countries increasingly favour skilled workers.

In the USA immigration is legally defined in terms of acquiring permanent residence. About half of all resulting “immigrants”, however, are already resident and have changed their status. The USA also records the entry of temporary workers. Immigration into the USA in the 1990s fluctuated between 3 and 4 per thousand of the population, with no clear trend. There was an (uneven) increase in what is categorized as “employment based immigration” of professional and skilled workers from some 60,000 in 1990 to 90,000 in 1997 (around 10 per cent of all immigration) and in entry for temporary work from 140,000 in 1990 to 200,000 in 1996. The stock of illegal migrants was estimated at 5.5 million in 1996 but is probably higher by 2 million. Migration for work therefore may have risen in the 1990s and may account for an increase of perhaps 4 per thousand in the labour force. In the EU migrant workers are estimated at a fairly stable figure of around 600,000 new entrants annually or some 3 per thousand of the total work force. A number of amnesties have regularized the position of illegal migrant workers but in e.g. Italy there may still be 250,000 working illegally with smaller numbers in France and Spain.

A few regional groupings of likeminded countries allow the free movement of nationals for settlement and, by and large, for work. All countries, however, impose restrictions on inward migration for employment for some workers and all countries are apt to see migration in terms of their own apparent interests. Many countries of in-migration insist on time bound contracts and on the subsequent return of migrants to their own countries of origin, and possible readmission. Workers accepted for permanent settlement would normally become nationals. Sending countries often attempt to discourage the movement abroad of highly skilled labour but the right to leave one’s country of origin is enshrined in the UN Convention on Human Rights. They also often impose controls on recruitment to weed out migration for suspect occupations and to check the regularity of contracts issued. There is a growing consensus that trafficking in persons, i.e. the voluntary or quasi-voluntary movement usually of young people, often women, and in the worst cases children, for immoral purposes or for child labour across borders, must be addressed as an urgent human rights concern.⁵ A global agreement exists on the treatment of asylum seekers but it confers no right to seek employment in the country of refuge.

Box 6: Labour standards and international migrants

The ILO has adopted a number of instruments aimed specifically at migrant workers. Their intention was to regulate the conditions in which the migration process takes place, on the one hand, and, on the other, to provide specific protection for a very vulnerable category of workers. To achieve this, the standard-setting activities of the ILO in this area have been concentrated in two main directions. First, to establish the right to equality of treatment between nationals and non-nationals in the field of social security and at the same time to institute an international system for the maintenance of acquired rights. Second, the ILO has endeavoured to find comprehensive solutions to the problems facing migrant workers. This is summarized in Convention No. 143, Migrant Workers (supplementary provisions) 1975. This commits ratifying States to eliminating clandestine labour but to respect the labour rights of all legal migrants. The General Assembly of the United Nations has adopted the International Convention on the protection of the Rights for All Migrant Workers and Members of Their Families. This is built upon the provisions of ILO Conventions but goes beyond them by extending to migrant workers who enter or reside in the host country illegally, rights which were previously limited to individuals involved in regular migration for employment. The new Convention has, however, received but a lukewarm welcome from the States.

⁵ For a fuller discussion see, ILO, *Stopping forced labour*, Geneva, 2001.

In a dynamic world international migration is both inevitable and desirable. However, there are grounds for criticizing current policies in this field. Migrant workers, particularly the less skilled, are very likely to be treated as second-class citizens. This may apply even if they become permanent residents and indeed may apply also to their offspring. Issues of discrimination based on ethnic origin then frequently arise. Temporary migration, especially without family members, may arouse less concern in the host country but such migrant workers have usually signed away rights to changing jobs or to further training. Often they cannot protect what rights they have. Temporary and contract migration also often implies the separation of parents from children. Most unskilled immigrants from developing to developed countries now tend to be either illegal entrants or refugees and asylum seekers, working illegally. This has created two problems. First, demand-supply imbalances in the developed countries' labour markets are being artificially sustained because incentives to new training are weakened. Second, illegal unskilled migrant workers are virtually without any kind of social protection and thus risk becoming an exploited underclass.

In terms of profit and loss in the developing countries, the immigration of unskilled workers to wealthier countries is largely beneficial. Their foregone contribution to output is usually a fraction of the value of the remittances they send back. Such remittances are an important source of poverty alleviation. While emigration of skilled workers brings some similar benefits to the sending country, it is not clear if on balance benefits are positive or negative. Such movement obviously makes the accumulation of human capital in developing countries more difficult and remittances are unlikely to compensate for all the social benefits skilled workers can contribute in a poor country. Furthermore, if skilled workers settle abroad their remittances may dwindle and their children make no contribution to the country of origin of the parents. The other side of the coin is that the return of skilled workers, even temporarily, is an important source of technology transfer.

Concern over the rising incidence of clandestine migration and the problems of migrant labour generally has placed the issue of the management of migration on the agenda of states as well as regional and international bodies. It is a critical issue between the US and Mexico, between the EU and Africa, between the Russian Federation and her former satellite states, and in many developing countries that employ foreign labour like Thailand and South Africa. Pressures are growing for an international treaty or convention on the rules and principles which should govern international migration.

Appendix Table 1

Distribution of total labour force by sector (to be disaggregated further especially for economies in transition)

	Agriculture Total			Industry Total			Manufacturing Total			Services Total		
	1980	1990	2000	1980	1990	2000	1980	1990	2000	1980	1990	2000
Asia	65.9	61.8	57.8	15.1	16.9	18.7	11.1	12.6	14.1	19.1	21.3	23.5
Africa	68.7	62.8	57.0	10.3	11.1	11.8	6.1	6.5	6.9	27.7	31.1	34.5
Latin America and the Caribbean	34.2	25.4	16.6	24.8	23.6	22.4	16.1	14.1	12.2	41.0	51.0	60.9
North America	3.8	2.9	2.0	31.4	25.9	20.5	22.5	17.5	12.5	64.8	71.2	77.5
Europe	15.9	12.2	8.5	39.8	36.2	32.7	27.9	25.4	22.8	44.4	51.6	58.8
Oceania	21.5	20.0	18.4	26.9	22.3	17.6	18.8	13.7	8.6	51.6	57.8	64.4
World	52.1	48.9	45.8	20.3	20.0	19.7	14.4	14.1	13.8	27.1	31.1	34.5

Source: ILO estimates.

Appendix Table 2: Family employment¹ in selected countries, early and mid to late 1990s (per cent)

	Early 1990s		Mid to late 1990s			
	Total	Female	Total	Female		
<i>Sub-Saharan Africa</i>						
Ethiopia	(1994)	90.7	93.7	(1999)	89.7	92.3
Lesotho		na	na	(1997)	62.0	55.8
Uganda	(1989)	85.6	93.8		na	na
Zimbabwe	(1992)	42.6	65.8	(1999)	56.6	73.3
<i>Latin America and the Caribbean</i>						
Bolivia	(1990)	39.6	50.1	(1996)	39.1	52.6
Colombia	(1992)	28.3	26.3	(1999)	33.1	31.7
Costa Rica	(1990)	24.7	20.5	(1999)	20.9	20.9
Ecuador	(1990)	36.0	40.8	(1998)	33.4	39.7
Mexico	(1991)	36.6	36.2	(1999)	35.1	36.9
Trinidad and Tobago	(1990)	21.7	20.8	(1999)	18.5	17.5
<i>Asia</i>						
Bangladesh		na	na	(1996)	69.4	85.0
Pakistan	(1995)	64.9	na	(1997)	62.5	na
Sri Lanka	(1991)	35.4	34.9	(1998)	32.5	37.3
Thailand	(1990)	63.0	77.1	(1999)	56.8	69.9
<i>Eastern And Central Europe</i>						
Czech Republic	(1995)	8.1	5.8	(1999)	10.5	7.5
Hungary	(1992)	7.2	6.5	(1999)	11.4	8.5
Romania	(1991)	26.8	33.1	(1999)	40.8	44.6
Russian Federation	(1992)	0.8	0.5	(1999)	4.6	4.1
Slovakia	(1994)	4.4	2.5	(1999)	5.4	3.1
<i>OECD</i>						
Australia	(1990)	10.3	8.5	(1999)	10.5	8.1
Ireland	(1990)	19.6	9.0	(1999)	13.2	6.4
Portugal	(1992)	19.2	20.8	(1998)	21.6	22.9
Spain	(1990)	21.5	24.2	(1999)	15.4	14.5

¹ share of own account workers and unpaid family workers in total employment.

Source: ILO: *Key Indicators of the Labour Market 2001-2002*

(Geneva 2001).