

**INTERNATIONAL
INSTITUTE FOR
LABOUR STUDIES**

Discussion paper

DP/148/2003

Education and
Outreach
Programme

**Employment dimensions of
Decent Work: Trade-offs and
complementarities**

Martin Godfrey

P.O. Box 6
CH-1211 Geneva 22
Tel. 00 41 22 / 799 6128
Fax. 00 41 22 / 799 8542
E-mail: inst@ilo.org
<http://www.ilo.org/inst>

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Employment dimensions of Decent Work: Trade-offs and complementarities

Martin Godfrey^{*}

International Institute for Labour Studies Geneva

^{*} Independent researcher, contactable at mgodfrey@online.ru. Thanks are due to Dharam Ghai, A.V. Jose and participants in the International Internship Course on Labour and Social Policies to Promote Decent Work, ILS Geneva, May-June 2003, for helpful comments.

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ISBN 92-9014-672-9

First published 2003

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Requests for this publication should be sent to: IILS Publications, International Institute for Labour Studies, P.O. Box 6, CH-1211 Geneva 22 (Switzerland).

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Preface

This Discussion Paper is part of a set of special studies on Decent Work commissioned under the Education and Outreach Programme of the International Institute of Labour Studies. The Programme seeks to develop pedagogical materials on social and labour policies for the promotion of Decent Work. The project output is addressed to officials in government, trade unions and employers' organizations as well as to the academic and policy community interested in the well-being of all in the world of work.

The special studies focus on each of the four dimensions of Decent Work: Rights at Work, Employment, Social Protection and Social Dialogue. Together they explore in depth the concepts, typologies and indicators pertaining to the different dimensions of Decent Work. For the purpose of preparing the studies, the Institute has secured the services of scholars with specialization and teaching experience in the core disciplines of the ILO.

The Institute wishes to thank Martin Godfrey for having prepared the present paper dealing with the Employment Dimensions of Decent Work. Other Discussion Papers being brought out under the series are by Bob Hepple: *Rights at Work*, Sarosh Kuruvilla: *Social Dialogue for Decent Work* and Ashwani Saith: *Social Protection: A Development Perspective*.

Geneva
August 2003

Education and Outreach Programme
International Institute for Labour Studies

Executive summary

Decent work has many dimensions. Anker et al. (2002) derive six from the Director-General's original statement that ILO should promote 'opportunities for women and men to obtain decent and productive work, in conditions of freedom, equity, security and human dignity' (ILO, 1999):

- (a) opportunities for all to find any kind of work, including self-employment, family work, and wage employment in both the informal and formal sectors;
- (b) freedom of choice of employment, i.e. excluding forced, bonded and slave labour and unacceptable forms of child labour;
- (c) productive work, providing adequate incomes and ensuring competitiveness;
- (d) equity in work, including absence of discrimination in access to and at work;
- (e) security at work, as far as health, pensions and livelihoods are concerned; and
- (f) dignity at work, not only in the respect that is extended to workers, but also in their freedom to join organizations which represent their interests and to voice concerns and participate in decision making about working conditions.

All these dimensions (of which the first four will be mainly discussed in this paper) are precisely definable and, to a varying extent, measurable but, as objectives, they are not necessarily mutually compatible. The discussion about the practicalities of decent work policy essentially comes down to possible trade-offs and complementarities between its dimensions.

Before getting into questions of policy, this paper reviews these dimensions in more detail and spells out some of the possible conflicts between them. Two schools of thought – 'distortionists' and 'institutionalists' – are then distinguished, and their views on the impact of labour market regulations, and hence on the possibilities of trade-offs and complementarities between the various decent-work dimensions, are summarized. Since this is ultimately an empirical and not an ideological question, a review of the evidence follows, with mixed implications for the controversy. A six-category typology is then developed, with Ghai's (2002) classical, transition and development models further distinguished according to the degree of flexibility in the economy. Next, the range of indicators of the employment dimensions of decent work is reviewed, and the possibility of developing a single index, analogous to the Human Development Index, is explored. A framework for policy formulation is then proposed, with a focus on increasing the demand for labour and the 'integrability' of the most disadvantaged workers or labour-market 'outsiders'. Next, in the longest sections of the paper, the policy options and prospects for promoting decent work (through increasing both labour demand and integrability) in the six types of labour market in our typology – flexible and inflexible x industrialized, transitional and developing – are reviewed in some detail. Finally, conclusions and recommendations for policy are outlined.

1.1 Dimensions of decent work

Decent work has many dimensions. Anker et al. (2002) derive six from the Director-General's original statement that ILO should promote 'opportunities for women and men to obtain decent and productive work, in conditions of freedom, equity, security and human dignity' (ILO, 1999):

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- (f) dignity at work, not only in the respect that is extended to workers, but also in their freedom to join organizations which represent their interests and to voice concerns and participate in decision making about working conditions.

Some would still argue that the first objective of decent work – minimizing the unemployment rate – should be given top priority, at least in industrialized countries. Sen (1997, p. 160) lists ten types of damage inflicted on Europe by massive unemployment.

- (a) *Loss of current output and fiscal burden.* Unemployment “cuts down national output and... increases the share of output that has to be devoted to income transfers”.
- (b) *Loss of freedom and social exclusion.* The unemployed are excluded not only from economic benefits, such as social insurance and pension and medical entitlements, but also from social activities, such as participation in community life.
- (c) *Skill loss and long-run damage.* People who are out of work 'unlearn' by 'not doing'. And loss of confidence and sense of control can have a long-term effect on competence.
- (d) *Psychological harm.* Unemployment, especially if prolonged, can “play havoc with the lives of the jobless, and cause intense suffering and mental agony”: a country's suicide rate often varies directly with its unemployment rate.
- (e) *Ill health and mortality.* Unemployment is often associated with a higher incidence of illness and resulting mortality.
- (f) *Motivational loss.* Motivational decline and resignation, typically connected with long-term unemployment, are detrimental to the search for future employment, weakening the distinction between those who are in and those who are outside the labour force.
- (g) *Loss of human relations and family life.* Unemployment can disrupt social relations and increase tensions within the family.
- (h) *Racial and gender inequality.* Ethnic minorities are often disproportionately affected by unemployment, which also feeds the politics of intolerance and racism and hardens gender divisions.
- (i) *Loss of social values and responsibility.* The material deprivation of the jobless and their feelings of alienation boost crime and threaten social cohesion.
- (j) *Organizational inflexibility and technical conservatism.* A high unemployment rate increases workers' resistance to economic reorganization involving job losses.

“These costs”, suggests Sen, “diminish the lives of all, but are particularly harsh on the minority – a large minority – of families severely afflicted by persistent unemployment and its far-reaching damages.... Increasing employment cannot but be at the very top of the list of things to do. It is amazing that so much unemployment is so easily tolerated in contemporary Europe.”

The costs of unemployment are undeniable but, as Sen would of course recognize, its minimization cannot be the only objective of employment policy in industrialized countries.

Britton (1997, p. 313) points out that full employment defined only in these terms “could be a nightmare. It could amount to a return to the conditions of the nineteenth century. It could mean that workers become so impoverished that they are obliged to accept work which is exhausting, soul-destroying or unsafe. It could mean the direction of labour and the loss of personal freedom.”¹ He argues that full employment as an objective must be accompanied by an acceptable “distribution of income, the preservation of decent employment conditions and the right to choose whether to work or not”.

Also, in countries without effective unemployment benefit systems, particularly developing countries, an employment policy which gives top priority to minimizing the unemployment rate is usually misconceived. In many such countries the highest unemployment rates are found among the more educated young in urban areas, who can rely on family support to finance an extended job search.² Those who are least favourably placed in a national labour market of this kind may not be unemployed: they may be working long hours for extremely low pay, doing unpaid work in a family farm or struggling to survive on a city street.

Equity, security and dignity at work are other dimensions of decent work identified by Anker et al., 2002. They are usually associated with social security arrangements, health and safety regulations, freedom of association, avoidance of discrimination, etc., but some argue that we should go beyond this – work should also be 'meaningful' to workers. Meaningful work must be freely chosen, but also satisfying and compatible with prevailing culture and norms. Bruton and Fairris (1999, p. 21) suggest that the abrupt shift to modern factory work in countries that have adopted export-led growth strategies may cause problems in this respect. They contrast the experience of Japan and Taiwan, China, with that of Thailand and Malaysia. In Taiwan, China, the development of small firms in rural areas helped to maintain the links between work and other activity. In Japan the workforce and the workplace were part of a 'network of innovation' that made use of knowledge from abroad without destroying the link between work and the prevailing social framework. In Malaysia and Thailand, on the other hand, foreign investors have imported an approach to work that is often “incompatible with existing institutions, practices and routines, and ideas of what is legitimate”: as a result, workers in free trade zones have “little involvement with their work and little commitment to the company”.

The degradation of labour in modern factory work³ has come to be seen not so much as an inevitable consequence of capitalist relations of production but rather as a consequence of the system of mass production perfected by Henry Ford in the 1920s and 1930s and generalized in industrialized countries in the 1940s to 1960s. Fordist mass production, to which the moving assembly line was central, carried division of labour to its extreme. “The assembler ... had only one task – to put two nuts on two bolts or perhaps attach one wheel to each car. He didn't order parts, procure his tools, repair his equipment, inspect for quality, or even understand what workers on either side of him were doing Special repairmen repaired tools. Housekeepers periodically cleaned the work area. Special inspectors checked quality, and defective work, once discovered, was rectified in a rework area after the end of the line The role of the assembly worker had the lowest status in the factory” (Womack et al., 1990, p. 31).⁴

In the last 20 years the Fordist model has given way in industrialized countries to new models of the labour process – flexible specialization, lean production, just in time (JIT), total

¹ Britton is not implying that this is the only route to reducing the unemployment rate, merely that it is a logical possibility.

² E.g., see Rama (1999) on Sri Lanka.

³ Degradation of labour is of course relative: as in many developing countries today (see below), Fordist factory work is often preferred to the available alternative.

⁴ See Thompson (2003) for a clear introductory discussion of Fordism, post-Fordism and the flexible system of production.

quality management (TQM) etc. – which (in the interests of higher productivity) give the production worker a responsible and creative role in checking quality, preparing and maintaining machines, monitoring systems, improving methods, and solving problems. This requires a new kind of worker – highly literate, numerate and, above all, flexible – and a team-based rather than individual approach to work (Ozaki, 1996). These models have recently begun to spread to developing countries, often in clusters of small firms along Italian lines (Humphrey 1995, 1997; Schmitz and Nadvi, 1999; Gulyani, 2001), but the extent of their potential impact is not yet clear. From the point of view of decent work, they draw attention to another trade-off. For workers in new-model enterprises they represent a huge improvement on the Fordist model – a shift towards more meaningful and more satisfying work. But the shift is accompanied by a big fall in demand for unskilled workers, declining union membership, an increase in precarious and 'atypical' forms of work, and in some countries stagnant or falling real wages.

Thus the promotion of decent work is clearly a complicated endeavour. Objective a, minimization of unemployment, could in principle be achieved by policies which depress wages or limit the freedom of choice of the unemployed about the types of work they would accept, conflicting with objectives b and c. Incomes and security at work (objectives c and e) could be increased in ways which reduce the number of new employees that could be absorbed (objective a). The meaningfulness of work (objective f) could be promoted for a few at the expense of the incomes and conditions of the many (objective c). There might also be trade-offs between current and future gains and losses. It is possible, however, that there are complementarities rather than, or as well as, trade-offs between some of these dimensions.

1.2 Distortionists v. institutionalists

As is often the case in economics, there are two schools of thought on the issue of complementarities and trade-offs between decent-work dimensions – the 'distortionists' and the 'institutionalists' (Freeman, 1993). The litmus test of allegiance to either school is one's view on labour market regulation.

Distortionists (i.e. most neo-classical labour economists) argue that minimum wage and employment security regulations discourage hiring and favour insiders with good jobs against outsiders with bad jobs or no jobs at all. Their hypothesis about minimum wages is that setting them above the market clearing level, given a downward sloping demand curve for labour and an upward sloping supply curve in a competitive market, reduces employment and increases unemployment. If, as in most developing countries, it is not possible to extend coverage of minimum wage regulations to the whole labour market, dualism or segmentation of that market is institutionalized. Employment in the protected sector falls. The supply of labour to that sector increases. Employment outside the protected sector and unemployment also increase.

The parallel hypothesis about employment security regulations is that they increase the incentive to adopt capital-intensive techniques, because they make it more difficult and costly to dismiss unsatisfactory workers, and more difficult to increase labour productivity and restrain or reduce labour cost per unit of output. They also reduce the flexibility that enterprises need to adjust to changing market conditions. When business falls off, it is difficult and costly for them to dismiss workers. When business picks up, they will be cautious about hiring new workers. This school also points to the negative side-effects of all kinds of labour market regulations. For instance, employers will try to bypass them by hiring casual or temporary workers, by keeping their establishments below the critical size and by putting out work to women and children in households.

Institutionalists take the opposite view about the likely impact of such regulations. On minimum wages, they point out that the assumption of competition in the labour market may not hold and that firms' market power may enable them to set wages below market levels – in which

case, setting a minimum wage may lead to a rise in employment (O'Higgins, 2001, p. 80). They also use the 'efficiency wage' argument that there is a positive relationship between wages and productivity, in which case the demand for labour may increase in response to a wage increase. This may be a matter of high-wage employers being able to select more effective workers for a given task; or to obtain greater 'commitment' from their workers, with lower turnover and absenteeism; or, in the poorest countries, to enjoy higher productivity due to the better health and nutritional standard of their workers (Leibenstein, 1957). In any of these cases it would pay employers to offer higher wages than would be necessary to attract the minimum number of workers required.

Similarly, they would argue that employment security regulations may yield increases in productivity by: improving workers' commitment to the enterprise and thus raising work motivation and productivity (with an effect similar to that of the efficiency wage); reducing labour turnover and thus increasing on-the-job learning; encouraging workers to accept productivity-raising rationalization and modernization measures, as well as occupational and work-environment changes; inducing greater acceptance of disciplinary measures; and encouraging managers to find ways of increasing efficiency and competitiveness other than laying off workers (Standing, 1989, p. 42).

The differing views of these two schools about the impact of labour market regulations have implications for the possibility of conflict between the various decent-work dimensions. Distortionists would warn that there is indeed a danger of conflict between (i) improving wages and other conditions of work and (ii) increasing employment. They believe that assuring high wages and labour standards for some can harm others. Institutionalists would probably see no necessary conflict between these two sets of objectives. Ultimately, though, this is an empirical and not an ideological question, and has to be answered by a review of the evidence.

1.3 Evidence on distortionism v. institutionalism

As far as minimum wages are concerned, much depends on their level in relation to the average wage and on their incidence rate. During the 1990s minimum wage levels tended to decline, both in real terms and as a percentage of the average wage; this probably reduced their incidence and their impact on employment. A lively debate has ensued in the United States, following a challenge to the distortionist view by Card and Krueger (1995), who found an increase in employment in the fast food industry following an increase in the minimum wage. A review by the OECD (1998) of nine member countries found that there is a significant negative effect on the employment of teenagers, a 10 per cent increase in the minimum wage being associated with a fall in their employment of 2-4 per cent. This impact decreases as the age of workers increases, and effectively disappears for the prime-age group. Overall, the effect on employment is negative, but modestly so.

In many transition countries, "the minimum wage has fallen well below the subsistence minimum, thus losing its social and economic function" (Nesporova, 2002, p. 34). In a sample of 30 developing countries, mainly in Latin America and Africa, Saget (2001) finds no significant effect of minimum wages on employment, which she attributes to the extent of non-compliance and the fall in the real minimum wage in the period covered (from the 1970s to the late 1990s). However, (interestingly for the debate about trade-offs and complementarities) she does find that increases in the real average manufacturing wage in these countries have a significant negative impact on the level of employment.

On the basis of data from 27 member countries, the OECD (1999) found that stricter employment protection legislation raises employment for prime-age men, but lowers it for youths and women, with the overall effect being a net reduction. But these are simple bivariate

associations. When multivariate techniques are used to control for other factors, these associations tend to be weaker or entirely absent. Betcherman et al. (2001) comment on these and other results for industrialized countries that “the actual importance of employment protection arrangements might be less than many economists would assume”. However, in transition countries their impact has been described as “somewhat limited but not insignificant” (Nesporova, 2002, p. 31). And in Latin America, researchers (using an ingenious job security index which attempts to measure the expected future cost, at the time of hiring, of dismissing the worker for economic reasons) have found clearer evidence of negative employment effects: “an increase in expected dismissal costs equivalent to one month of pay is associated with a 1.8 percentage points decline in employment rates” (Heckman and Pagé, 2000, p. 20).

These results have mixed implications for the question of trade-offs and complementarities between decent-work dimensions. Minimum wages only seem to have a negative impact (and then just a modest one) on employment in countries where their level in relation to the average wage and their incidence rate are both high, and even there some positive effects have been identified. However, a faster rate of increase in wages than in productivity (as may have been the case in the developing countries in Saget's sample) can have negative implications for employment. The evidence for a negative effect of employment security regulations on employment is more convincing, particularly in Latin America. While these potential trade-offs should be borne in mind, a more hopeful message is that the emphasis should always be on increasing productivity – the key to converting a zero-sum into a positive-sum game. This will be explored further in the discussion of policy later in the paper.

1.4 Typology

Differences in economic structure affect the way in which the objective of decent work can be approached. Ghai (2002) uses three criteria – income per head, share of wage employment in total employment, and share of total government and social security expenditure in GDP – to distinguish three broad models of decent work: classical; transition; and developing. As table I shows, there are differences within each category in some of these respects. While income per head does not differ much between classical-model industrialized countries (the US level is not much more than twice that of Portugal), wide differences have emerged within the transition (e.g. between the Czech Republic and Tajikistan) and development categories: indeed, some 'developing' countries, such as the Republic of Korea, with a GDP per head as high as that of Portugal, are overdue for reclassification. Although the proportion of wage-earners in total employment has diminished in transition countries, it is still comparable with that in western market economies. Within the development category, however, a huge gap has emerged between countries which have been more (e.g. East Asia) and less successful (e.g. Sub-Saharan Africa) in boosting wage employment. Industrialized and transition countries are converging as far as the share of government and social security expenditure are concerned, but with big variations: government expenditure in Russia, for instance, now accounts for a lower percentage of GDP than in most Western European countries, and many transition countries spend a lower proportion on social security than any OECD member country except Japan. Government expenditure varies widely as a proportion of GDP in developing countries, but only a few Latin American countries spend more than a small part of it on social security. An important component of social security for the labour market (affecting the meaning of unemployment statistics) is an effective unemployment benefit system: in general, most industrialized and a few transition countries have effective systems, while developing countries do not.

Table I: Three models of decent work

	Income per head	Share of wage employment In total employment	Share of total government & social security expenditure in GDP
Classical	High, with modest inter-country differences	High	High, with fairly wide range
Transition	Middle-income, but wide inter-country differences	Still high, but lower than pre-transition	Much lower than before, but still relatively high
Development	Very wide range, from middle-income to impoverished	Very wide range	With a few exceptions, low or negligible

Source: Ghai, 2002, tables I, II and III.

Several other dimensions suggest themselves as possible additions to Ghai's useful typology. For example, countries differ in their factor endowments, the extent of their integration with the global economy, whether they export or import labour, and in the relationship between rates of change in productivity and in real value-added per worker. However, the most interesting additional dimension, to which some of those in table I are related, is the nature of the labour market.

Freeman (2002) has recently described two competing visions of the future world of work – the Live to Work (LTW) and the Work to Live (WTL) vision. The LTW model has four characteristics:

- (a) Everyone works, including most women.
- (b) There is limited social protection.
- (c) There is great inequality, and hence big rewards for success and big penalties for failure.
- (d) Labour unions are weak.

Freeman comments (p. 155) that “at its best, this is the world of shared capitalism, where employees have a real stake in their company and everyone contributes and benefits from success.... At its worst, this is an insecure rat race, where employees work long hours for fear of losing their job, and hope of winning the big promotion or salary increase”.

The WTL model also has four characteristics:

- (a) Hours worked are limited, and holidays are long.
- (b) There is national wage-setting and extensive social protection.
- (c) Unemployment durations are long, because employees have job security and low mobility.
- (d) Labour unions are strong.

“At its best” says Freeman (p.156), “this is a world where security generates risk-taking and where leisure generates stronger families, limited hours produce deep insights and labour-saving innovation. At its worst, the employed guard their positions against newcomers, which makes entrepreneurship costly, and the young remain in their parents' homes for years while they wait for the good job”. Freeman has in mind the contrast between the LTW United States and WTL Europe, but a distinction between more and less flexible labour markets can be applied to all three categories of table I.

In the case of transition countries, the distinction is mainly between countries where progress with overall economic reform (connected with a move away from pre-transition labour market rigidity) has been quite fast and those where it has been slower: the more successful economies are actually trying to move towards the Western European WTL model, but in the process their labour markets have become more flexible than those of the less successful, where rigidities such as residence permits and unreconstructed state enterprises are still important.⁵ In developing countries, the distinction is between (i) countries where the public sector is an

⁵ See Nesporova (2002) and Cazes and Nesporova (2001) for discussions of the complicated situation with labour market flexibility in the transition countries.

important employer and governments are heavily involved in labour market regulation and (ii) countries where the share of the public sector in total wage employment is quite low and there is little government regulation of the labour market: labour markets would tend to be more segmented in (i) than in (ii).⁶ This suggests a six-category distinction as in table II, with some provisional allocations to each category. This typology will be discussed further in the sections on policy below.

Table II: A six-category typology

	More flexible	Less flexible
Classical	USA, UK	Other W. Europe
Transition	Central Europe, the Baltics	CIS
Development	E. & S.E. Asia	South Asia, Latin America, North Africa & Middle East

1.5 Indicators

The general move away from decent work in industrialized countries in recent decades could be characterized as a move away from what Kornai many years ago called 'resource-constrained' labour markets (in which, as he put it, workers were 'playing on their home ground') to 'demand-constrained' labour markets (in which employers are playing at home) (Kornai, 1980). In a demand-constrained labour market the participation rate is low, so that there is always a large potential reserve of labour, only part of which appears in the unemployment statistics. Specific labour shortages are not eliminated (there are always some vacancies) but there is chronic unemployment in that the rate considerably exceeds the minimum caused by friction. Many of those 'used to employment' are unemployed. It is, thus, a buyer's labour market in which the employers are on top and in which job-seekers have to wait or accept 'forced substitution' in taking a job below their talent and training, and pressures for wage increases are weak.

In such a buyer's market changes have taken place in the way that employers use labour. Within firms in industrialized countries labour markets have become increasingly segmented. Employers have reorganized their personnel systems into fixed (primary or core) and variable (secondary or peripheral) components. Most firms contain both primary forms of employment (stable, career-oriented, male-dominated, and benefiting from the labour-process improvements described earlier) and secondary forms (high turnover, with little career progression, involving little training). Peripheral groups, which are growing more numerous in relation to the core, include part-time and job-sharing employees, those on short-term contracts, probationers, public-subsidy trainees, etc. Extensive use is also made of external groups, such as agency temporaries, outsourcing, subcontracting and self-employment. This process increases the vulnerability of the growing number of secondary workers, restricts their career and training prospects and adversely affects their conditions of employment. The challenge is to find indicators which can measure these dimensions in industrialized countries and keep track of analogous processes in transition and developing countries.

In thinking about indicators, it is important to insist that decent work as a concept must be firmly located in the labour market. Promoting decent work is an excellent way of alleviating poverty in a situation in which most of the poor have nothing to sell but their labour, and some human development indicators may reflect the adequacy of remuneration of some household members. But poverty is still distinguishable from 'indecent work'. A household with a high average income from profits, interest, rent or transfer payments may include individuals who are

⁶ Labour market regulations and strong labour unions are not the only sources of segmentation, which can reflect discrimination by employers and differences in the extent to which they recognize a wage-productivity relationship.

unemployed or working for low pay. And a person with a good job may be a member of a poor household in which no-one else has an income. It is less confusing to locate the employment problem firmly in the labour market and to subject the poverty problem to separate analysis. This means that poverty data not related to work should not be used as indicators of decent work – for instance, the Human Development Indicators in Ghai's tables VII or IX, or the 'working poor' estimates based on membership of poor households rather than the earnings of individuals from work (table VIII). Data that are directly related to the experience of people at work are also preferable to input data: for example, it would be more useful to know what proportion of people are covered by various social security provisions than simply to know what percentage of GDP corresponds to public social security expenditure (table X).

The traditional labour market indicators unfortunately tell us little about decent work. For instance, the **unemployment rate** is problematic as a measure because the extent to which a job-seeker can afford to refrain completely from work will vary. In industrialized countries this will depend partly on the generosity of the unemployment benefit system, as it affects both the level of benefit and access to it. Many governments have found that they can reduce the numbers on their unemployment register by tightening up on benefit. In developing countries, in the absence of an unemployment benefit system, most of those who are seeking work have to find some way of keeping themselves alive which places them outside the ranks of the unemployed on the standard definition. The extent to which those without work look for it will also vary between countries and time periods. There is no point in looking for waged work if no such work is available in that area or at that time. Thus in depressed areas or bad times there may be a hidden reserve of discouraged workers outside the labour force.⁷ Should work become available the number seeking it would increase dramatically.

For similar reasons, the **labour force participation rate** and **employment-to-population ratio** can be suspect measures in developing countries. Where unemployment is an almost impossible condition to maintain, employment is largely supply-determined, and indicators that contain either measure are relatively insensitive to changes in market conditions.

The **time-related underemployment rate**, in the form that it is usually used in developing countries, also raises problems. It is supposed to cover those who are working for fewer than the 'normal' number of hours in the reference period and doing so involuntarily. The second part of the definition is often disregarded and all those working for less than, say, 35 hours a week are counted as 'visibly underemployed'. This yields huge estimates of the underemployment rate in many developing countries. In any case, counting the number of hours worked misses the point. In rural areas agriculture usually involves relatively few hours of work per week, except in peak seasons. In urban areas many of the self-employed work very long hours, often waiting or looking for customers. In both cases the point is not so much the hours of work as the very low returns to labour.

A much more robust labour-force series in such circumstances is **wage employment**, and it is worth collecting and analysing information about this, even when, as in many developing countries, it represents a relatively small proportion of total employment (see table I above). This focus on wage earners in such countries is not intended to imply that the majority of the labour force who are self-employed or unpaid family workers are unimportant: on the contrary, they are the ones who suffer much of the pain related to the labour market. The contention is merely that, as a guide to changes in the labour market as a whole, wage employment is a better indicator.

In industrialized countries, within wage employment it would be useful to distinguish between primary and secondary forms of employment: statistics on part-time and temporary employment are available for many OECD countries, though not quite in the detail that would

⁷ It could be argued that, in most developing countries, while few can afford to be unemployed, few can afford to be discouraged workers either.

be ideal for this purpose (OECD, 2002, chapter 3 and statistical annex). Three categories of **part-time** work can be distinguished:⁸ (i) short-time employment, when a firm temporarily reduces workers' hours during a recession; (ii) secondary part-time jobs, with low pay and fringe benefits, lack of social protection, lack of career opportunities and high turnover, chosen involuntarily; and (iii) 'retention' part-time jobs, chosen voluntarily by people who want to work part-time. Available statistics do not distinguish between these categories, lumping together all forms of part-time employment (which is particularly prevalent among women). **Temporary** jobs are another category of 'atypical' or precarious employment, which employers use to facilitate lay-offs and reduce social insurance contributions: data for EU member countries show an only slightly higher incidence among women than among men. The total number in these two types of 'flexible' work increased in all countries of the European Union for which data are available, except Denmark, Greece, Luxembourg and Portugal, between 1985 and 1995 (de Grip et al., 1997). Whether these two types of 'atypical' work should be classified as 'indecent' depends primarily on whether they are chosen voluntarily, which existing statistics are unable to clarify.

One of the most disappointing aspects of labour market statistics around the world is the weakness of data about **earnings** from work. As far as the earnings of the self-employed are concerned, this partly reflects the difficulty of isolating the returns to labour and the problem of ensuring a comparable and representative sample over time. However, data on **wages** are also thin. Some household labour force surveys have questions about wages of individual household members. The *ILO October Inquiry on Statistics on Occupational Wages and Hours of Work* has collected occupational wage data since 1921: these have serious problems (Anker et al., 2002, p. 31) but are a guide to trends in wage rates and earnings in selected representative occupations (ILO KILM 2001/2: tables 16a and 16b). For manufacturing, UNIDO compiles data on average wages from national sources (KILM table 15), and the US Bureau of Labor Statistics⁹ collects data for selected countries on direct pay of production workers, including: pay for time worked (basic time and piece rates plus overtime premiums, shift differentials, other premiums and bonuses paid each pay period, and cost-of-living adjustments); pay for time not worked (such as for vacations and holidays); seasonal or irregular bonuses and other special payments; selected social allowances; and the cost of payments in kind. *Improvement in wage statistics is the most urgent priority for the development of decent work indicators*, but meanwhile creative use has to be made of the data available. Both of the suggestions made by Anker et al. (p. 26) – percentage of the employed below half of the median or an absolute minimum, whichever is greater, by status in employment, and average earnings in selected occupations – are worth pursuing.

As for **non-wage aspects of the quality of employment**, the Bureau of Labor Statistics (BLS) measure of hourly compensation costs for manufacturing production workers includes, as well as direct pay, employers' contributions to funds for the benefit of workers. Such funds include those providing deferred income, insurance or current social benefits (retirement and disability pensions, health insurance, income guarantee insurance and sick leave, life and accident insurance, occupational injury and illness compensation, unemployment insurance, and family allowances).¹⁰ Unfortunately for our purpose, the BLS measure also includes in a few countries taxes or subsidies on payrolls even if they do not finance programmes which directly

⁸ From Tilly (1991), quoted by de Grip et al. (1997).

⁹ At ftp://ftp.bls.gov/pub/special_requests/ForeignLabor/suptab.txt

¹⁰ But not employer expenditures on training or subsidies to plant facilities and services such as canteens and medical clinics. These expenditures are part of the ILO definition of total labour costs but are omitted from the BLS definition of compensation costs because of lack of data. In countries for which data are available they account for no more than 4 per cent of total labour costs. Training may also be reflected in the supply price of labour – those who have been trained should earn higher wages.

benefit workers. In some countries, also, social benefits are financed out of general government revenue rather than from funds partly financed by employers.

All indicators can and should be disaggregated for further analysis by **gender** and **age group** and, if possible, by **education** level – since the incidence of indecent work is undoubtedly greatest among the less educated. Special indicators will also be needed for special purposes: for instance, Anker et al. make a good case for the percentage of **children in wage employment** as a useful initial indicator of the incidence of unacceptable work.

1.6 Towards a single index?

Would it be possible to develop a single index of at least the employment dimensions of decent work, analogous to the Human Development Index? Any such indicator must pass two tests: it must be as simple as possible, easily understood by non-specialists, and it must be based on data that are easily retrievable without too much of a time lag. The following 'index of labour morale', which combines data on wage trends with data on wage employment is suggested as a starting point (although a way of integrating some of the non-wage aspects of quality of employment would still have to be found).

The wage series used is that on compensation of production workers in manufacturing, compiled since 1975 from 29 countries by the US Bureau of Labor Statistics (BLS). Even on its own, the table on trends in hourly direct pay in US dollars, shown here for three selected countries (table III), is one of the best illustrations available of the impact of globalization on the world labour market.

Table III: Hourly direct pay in US\$, production workers in manufacturing, United States, Republic of Korea and Sri Lanka, 1975-2001

	1975	1980	1990	1995	1998	1999	2000	2001
US	\$5.30	\$7.98	\$11.80	\$13.47	\$14.72	\$15.16	\$15.63	\$16.14
Korea, R.	\$0.29	\$0.87	\$3.25	\$6.13	\$4.16	\$5.17	\$5.97	\$5.47
Sri Lanka	\$0.25	\$0.20	\$0.30	\$0.41	\$0.40	\$0.40	\$0.41	...

Source: US Bureau of Labor Statistics <ftp://ftp.bls.gov/pub/special.requests/ForeignLabor/supptab.txt>

The Republic of Korea and Sri Lanka started at around the same point in 1975 (with wages about one-twentieth of those in the United States) but, in the century's last quarter, wages in the Republic of Korea raced ahead: by 1996 they were almost half the US level. Since then, they fell temporarily as a result of the Asian crisis, but bounced back and in 2000 were almost 15 times the level in Sri Lanka – where an earlier attempt to join the global economy was thwarted by civil strife.

Since the purchasing power of a pay packet is of more importance to a worker than its value in US dollars, the more useful BLS series for our purpose is an index of real hourly direct pay in national currency, as in table IV.

Table IV: Index of real hourly direct pay in national currency, production workers in manufacturing, Sweden, Japan, United States and Republic of Korea, 1990-1998 (1990 = 100)

	1990	1991	1992	1993	1994	1995	1996	1997	1998
Sweden	100	98	101	98	100	103	109	113	118
Japan	100	103	106	107	109	111	113	114	115
US	100	99	99	98	98	98	98	99	100
Korea, R.	100	114	127	135	143	152	167	168	158

Source: Nominal pay as for table III, deflated by IMF consumer price index.

The dynamism of the US labour market is not evident from this table: real pay, though rising since 1996, was no higher at the end of the period than it had been at the beginning. Swedish workers did better: having endured stagnation in the first few years of the decade, they enjoyed a steep increase in real pay towards its end. The Japanese crisis does not seem to have been reflected in workers' real pay trends, although the rate of increase slackened towards the end of the period. Korean workers enjoyed the fruits of democracy in the form of large wage increases until the Asian crisis hit them in 1997.

Trends in real wages tell part of the story but only part. They are likely to be a good indicator of how wage-earners feel, but they do not indicate how easy or difficult it is to get a wage job, nor what conditions are like for those labour force participants (in many developing countries the majority) who are not wage earners. For a fuller picture we need to look at another variable also – the percentage of the labour force represented by wage employees – a key indicator of the development of a labour market, as already emphasized. A rise in this percentage is a good sign for those who are in the wage jobs: *it is also likely to be a good sign for those who are still looking for work or trying to earn a living in self-employment – more wage earners means fewer competitors and more customers.* Table V shows how this indicator has changed in our four selected countries.

Table V: Wage employment as a proportion of the labour force, Sweden, Japan, United States and Republic of Korea, 1990-1998 (%)

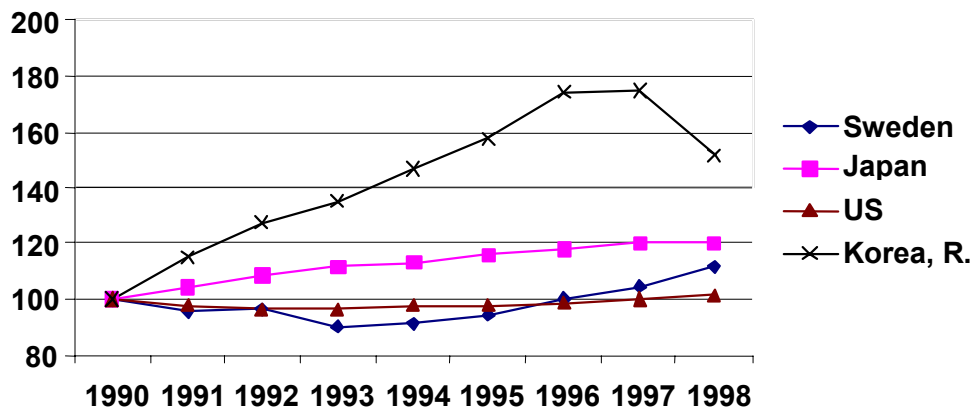
	1990	1991	1992	1993	1994	1995	1996	1997	1998
Sweden	88	87	84	81	80	81	81	81	84
Japan	76	77	78	79	79	79	79	79	80
US	86	86	85	85	86	86	87	87	88
Korea, R.	59	60	60	59	61	61	62	61	57

Source: ILO, KILM database.

The US labour market looks much more dynamic on this criterion: since 1993, as unemployment has fallen, wage employment (already very high as a proportion) has grown consistently faster than the labour force. Sweden has gone in the opposite direction over the period as a whole, but it was a case of collapse (along with that of the welfare state) and recovery rather than consistent decline. Japan has been steadily building towards a Northern European level for this indicator. And for the Republic of Korea, on a similar upward path until 1996 (when its percentage was higher than Spain's), the impact of the Asian crisis is again clear.

The proposed indicator is a combination of these two – specifically, an index of real wages multiplied by the percentage of the labour force in wage employment – itself expressed as an index to show comparative progress over time. As figure I shows, the rate of progress in this “index of labour morale” differed markedly between the four countries.

Figure I: Index of labour morale, Sweden, Japan, United States and Republic of Korea, 1990-1998



Over the period as a whole (and in spite of the dip towards its end) there is no doubt that, from the point of view of labour, the Korean labour market showed the greatest improvement: the extent to which it was a sellers' market, with workers 'playing at home', increased markedly. The steady progress in Japan, though with some easing off towards the end, is also notable. The trend in the US index, on the other hand, is remarkably flat: to some extent, this reflects the difficulty of increasing the proportion of workers in wage employment when it is already approaching 90 per cent of the labour force; nevertheless, it chiefly reflects the lack of any substantial rise in real wages. Certainly, since 1993 the morale of Swedish workers must have been increasing faster than that of their US counterparts.

Segmentation of a labour market (more likely in the 'less flexible' categories of country in table II above) does not necessarily invalidate this index: if the earners whose wage is used in the index enjoy a wage increase higher than market forces can bear, this will tend to slow the rate of growth of wage employment and so be reflected in the index. It would be useful in industrialized countries to distinguish between primary and secondary jobs: while most primary jobs will be waged, not all wage-earning jobs are primary. However, employment statistics are insufficiently subtle for this purpose and it would, in any case, be a pity to sacrifice the simplicity of the index as proposed and the accessibility of the data (though speed of retrieval needs to be increased).

2.1 A framework for policy formulation

The decent work approach introduces a concern with the quality as well as the quantity of employment; this concern can be best understood if related to the demand for labour. A change in the demand for labour can have three effects:

(a) It can lead to a change in the quantity of employment. This used to be the sole focus of analysis – especially in the emphasis on employment elasticity (the rate of growth of employment associated with a one per cent increase in output). This was particularly misleading in developing countries, where, as already discussed, most labour force participants cannot afford to be unemployed and thus 'employment' is largely supply-determined and of extremely varied quality: in such circumstances employment elasticities tend to vary inversely with output growth (rising in a slump and falling in a boom), with significant but unmeasured consequences for employment quality.

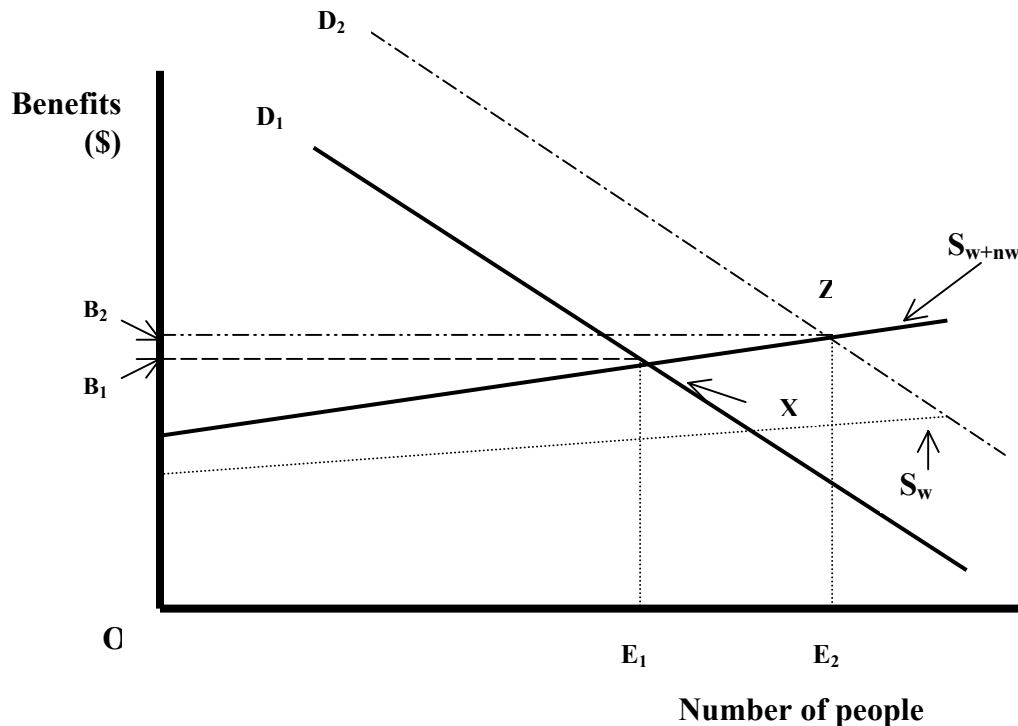
(b) It can lead to a change in remuneration, one aspect of the quality of employment.

(c) It can lead to a change in conditions of work, the other aspect of quality of employment.

An analysis of the impact of a change in demand for labour ideally has to take in all three dimensions noted above.

Figure II illustrates how this works in the case of wage-earners. The X axis measures the number of people, the Y axis total benefits of work – both wages and those non-wage benefits which impose a cost on the employer. The supply price of labour has two components, wage and non-wage benefits: so S_{w+nw} is the labour supply curve in relation to total benefits, S_w is the labour supply curve in relation to wage only. As a result of an increase in productivity, the demand curve shifts from D_1 to D_2 . The number employed increases from OE_1 to OE_2 . This is where the analysis used to stop. Average total benefit per worker (partly wage, partly non-wage) increases from OB_1 to OB_2 . Total returns to labour (the 'size of the cake' which defines decent-work possibilities) increase from OB_1XE_1 to OB_2ZE_2 .

Figure II: Effect of an increase in the demand for labour on quantity and quality of employment



Focusing on the demand for labour rather than merely on the numbers employed also enables us to reject the false conflict set up by employment-elasticity analysis between increasing productivity and increasing employment. It led employment planners to talk about the threat posed to jobs by 'too fast' growth in productivity,¹¹ whereas the process is entirely opposite. *Increasing productivity is at the centre of a decent work strategy.* Elementary economic theory tells us that outward shifts in marginal and average productivity curves are reflected in increases in demand for labour. More practically, the scope for improving the earnings and conditions of the working poor increases with the size of the 'cake' available to labour as a whole, which depends on productivity. And in global market places the capacity to compete depends on keeping unit labour cost (labour cost per worker divided by productivity) under control: the most successful expansion of employment in exports of manufactured goods occurs not in countries where wages are falling but in those where productivity is rising faster than wages.

Increasing the overall demand for labour is only part of a strategy to promote decent work. As Osmani (2002) points out, it is also necessary to increase the 'integrability' of the most disadvantaged workers or labour-market outsiders (the working poor rather than the unemployed in many developing countries), to enable them to take advantage of any increase in labour demand. This involves dealing with market failures, including those affecting the labour market (due to a lack of widely available accurate information), the credit market (which discriminates against those without assets), and those arising from the high transaction costs of living in remote areas. It involves making a judgement on the net effect in a particular country of the labour market regulations discussed earlier: if their main effect is to limit the integrability of the most vulnerable outsiders, they may need to be redesigned. It involves improving the skills of the excluded, to enable them to integrate into expanding sectors. And it involves action to

¹¹ Even the current ILO *Global Employment Trends* (ILO, 2003) is guilty of this approach: 'in the USA, productivity gains in recent years are impressive, but with slower growth in demand, now risk causing a further jobs shakeout.'

ensure that the integrability of women, ethnic minorities and people with disabilities is not hampered by discrimination against them.

2.2 Policy options and prospects

What are the policy options and prospects for promotion of decent work in the six types of labour market depicted in table II above – flexible and inflexible x industrialized, transitional and developing?

2.2.1 Industrialized countries

In industrialized countries, the struggle between Freeman's Live to Work (LTW) and Work to Live (WTL) models will presumably continue. In his view (p. 157), the outcome of the struggle will depend on: their relative ability to provide full employment; their relative performance in periods of full employment; their relative performance in periods of high unemployment; and their relative implications for technological advance and productivity increase. He judges that the LTW model still has the edge in achieving full employment, particularly in the favourable environment it provides for growth of jobs in the services sector and among women, but possible threats to investment levels from high foreign and personal debt have to be borne in mind. The flexibility of the LTW model gives it an advantage in periods of full employment: for instance, the time worked by older workers is more easily increased and welfare problems can be eliminated in such periods at no expense to the government. On the other hand, the WTL model, with its mechanisms to deal with unemployment and poverty and to stabilize aggregate spending, performs better when times are bad. Finally, the LTW model may be more favourable to the rapid adoption of new technologies, but there are enough counter examples to cast some doubt on this.

In any case, at least until recently, there were signs that the two models were beginning to converge. As summarized by Cichon (1997, p. 29), the traditional European model was based on “high productivity and relatively high wages, high unemployment and decent levels of social transfers”, while the US model was based on “lower productivity and lower wages, low unemployment and low transfers”. In the United States, unemployment was lower than ever between 1995 and 2000, and transfers were still low, but productivity and wages began to rise (see figure I above). In Europe, (although the IMF warns about the need for further labour market reform) a reduction in the role of government and the social partners, cuts in public-sector employment, deregulation, privatization, lean organization, etc. have reduced the contrast with the US model. Auer (2000) points to the success of four of the continent's smaller economies: Austria, Denmark, Ireland and the Netherlands have, in their different ways, reduced unemployment rates or maintained them at low levels, lowered the incidence of youth and long-term unemployment, increased employment rates, and reduced gender gaps. However, he concludes that the four European success stories have been due, not to throwing the baby out with the bathwater but, rather, to the countries retaining but adapting their institutions. In particular, “democratic corporatism”, very much out of fashion nowadays, is still alive and well in all four countries: “corporatist governance and social dialogue, combining mutual information and discussion of issues at higher levels with the ability to implement reforms on lower levels, facilitates wage moderation and is conducive to policy-making, combining the divergent interests of society and the economy as a whole” (p.90). Thus, in all four countries, although membership has tended to decline, the role of trade unions remains important (box I).

Box I: Can a resurgence of trade union movements roll back the 'new insecurities' in industrialized countries?

In a presentation to a recent symposium on the Future of Work, Employment and Social Protection, Appelbaum identified the 'four horsemen' of the transformation of work and employment, and the associated new insecurities, as the internationalization of production processes, the decline of the standard employment relationship, the marginalization of care work, and the ubiquity of digital technology.

- The growing economic power of footloose and borderless companies has undermined the ability of governments of industrialized countries to regulate their markets for social purposes and weakened the social protection previously enjoyed by workers.
- Partly as a result of this trend, the employment relationship has become more tenuous (with the growth of the atypical or precarious modes of employment already discussed), as has the commitment of firms and workers to each other.
- The collapse of the 'breadwinner-homemaker' model has not been accompanied in many countries by the development of an adequate system of caring for the children of working women and paid maternity, parental and sick leave.
- And, while new technology has increased productivity and improved the quality of core jobs in a few organizations, it has boosted sub-contracting and the geographic de-integration of production.

But Appelbaum finds two reasons for some optimism about the future.

- Not all countries are the same. The extent to which the four trends contribute to the new insecurities depends on the strength in each country of the institutions that represent workers' interests – trade unions, works councils, union confederations, and labour parties – and on the availability of social protection. For instance, 'the difference between the degree of insecurity between non-professional women workers in the US and their Swedish counterparts is extraordinary'. And multinational companies seem to be able to live with this.
- The newly insecure are not all from underprivileged backgrounds. Regardless of skill, gender, race or national origin, regular full-time workers everywhere are anxious about their futures. High-powered web designers and software engineers are as likely as low-paid workers to be laid off and to lack health insurance.

Appelbaum suggests that 'this is fertile soil for the resurgence of trade union movements that can capture the popular imagination by organizing women and men around themes that resonate across a wide spectrum of occupations, skills and earnings' – and roll back the new insecurities.

Source: Applebaum, 2002.

Both models are faced with a period of extreme uncertainty, as far as prospects for growth in the demand for labour is concerned – with the interconnected combination of global insecurity, oil price worries, declining equity markets that are volatile and capable of declining further, increased awareness of corporate malpractice especially in the United States, a housing market bubble in many countries, currency realignments that may become disorderly, the unsustainability of indebtedness in the United States, continued sluggishness in the European and Japanese economies, etc. (IMF, 2002; ILO, 2003). In these deflationary circumstances, even the IMF is arguing for macroeconomic policies in industrial countries that are 'supportive of activity' (p.13). This includes the possibility of further interest rate cuts in the United States (though 'medium-term fiscal consolidation is a priority' there) and the euro area (especially given the recent appreciation of the euro), and a definite need for aggressive monetary easing to support the reform of banking and the corporate sector in Japan. A straw to be clutched at in all this is the maintenance of high rates of productivity growth in the United States even as the level of economic activity has weakened. If, as seems likely, the diffusion of information technology

in Europe follows a similar pattern to that experienced in the United States, a cyclical upturn (if and when it comes) may be accompanied by faster productivity growth (IMF, 2002: box 1.3).

As for increasing the integrability of labour-market outsiders, there is unfinished business (OECD, 2002, p. 8). In particular, schemes to 'make work pay' need to be implemented more widely. Such schemes provide in-work benefits and tax credits for low-paid workers and their families, or reduce the cost to employers of hiring such workers, for instance through reduced social security contributions. The range of supporting services also needs to be increased, including help with child-care costs, transport and work facilities for the disabled, and training in job-search and job-readiness skills. On the whole, the OECD approves of the various schemes to 'activate' the unemployed, i.e. a combination of incentives, advice and sanctions to get them off the unemployment register, but points to the need to improve their design, with a view to building careers not just moving people into jobs. The need to adjust hiring, firing and training policies to the phenomenon of an ageing workforce is also emphasized. One lesson learned from the experience of the past 30 years is that policies that discourage labour force participation (e.g. early retirement or loosely administered disability/ long-term sickness schemes) are ultimately unsustainable and may end up promoting rather than alleviating social exclusion.

Another lesson is that 'success in the fight against unemployment and social exclusion requires renewed emphasis on a comprehensive lifelong learning strategy' (OECD, 2002, p. 12). To this should be added the need to look carefully at inequities within education systems. Recent international tests¹² enable not only the quality of education but also inequity in the distribution of that quality to be compared between countries. UNICEF (2002b) puts the results of these tests together to measure the degree of 'relative educational disadvantage' – the gap between the lowest and the average scores – in each country. It finds that relative disadvantage is significant in all 24 OECD countries covered by the tests, 'with gaps in test scores between low and average achievers being significantly wider than both the differences in average scores between nations and the differences that can be expected between one year of schooling and the next'. In the bottom quarter (or relegation zone) of a league table based on rankings in the five PISA and TIMSS tests are Switzerland, Greece, the United States, Germany, New Zealand and Belgium.

2.2.2 Transition countries

Among the transition countries, the more and less flexible groups are distinguished mainly by their relative progress with governance and enterprise reforms. In the more flexible group the front-runners in this respect are the four Central European countries (the Czech Republic, Hungary, Slovakia and Poland), closely followed by the Baltics (Estonia, Lithuania and Latvia), Slovenia and Croatia. The laggards in the less flexible group include the CIS (particularly its Central Asian members), South Eastern Europe, and the other former-Yugoslavian countries (European Bank for Reconstruction and Development, 2002).

For both groups, overall economic reform remains the prime means of increasing the demand for labour. The first group has moved further along this road than the second. The IMF (2002, p. 48) identifies four key measures for the CIS countries. These are: the effective enforcement of legislation establishing basic market institutions; the liberalization of factor and goods markets; enterprise restructuring; and strengthening the financial sector. One area where further reforms are definitely needed is in the regulation of small enterprises, of which there are

¹² The Trends in International Mathematics and Science Study (TIMSS), testing 14-year olds in 1999 (Mullis et al. 2000; Martin et al. 2000), and the OECD Programme for International Student Assessment (PISA), measuring ability of 15-year olds in reading literacy, scientific literacy and mathematical literacy, i.e. the ability to use academic knowledge and skills (OECD, 2001).

a relatively low number in CIS countries (as opposed to the 'shadow-economy' activities described in box II). A survey in Russia in March-April 2002 revealed a big gap between sensible new laws (a 'deregulation package' targeting registration, licensing, certification and inspections) and effective implementation. It found evidence that 'it is not only hard to establish a small business in Russia, but there are strong regulatory obstacles preventing small firms that do manage to enter the market from growing into medium sized firms' (World Bank, 2002a, p. 17). It also found evidence that in some municipalities administrative interventions are used to block market entry in the interest of incumbent firms. Another survey nine months later was more encouraging, finding that the deregulation package was beginning to work: small firms were more worried about increased competition than about regulations. However, the situation was still not good and the main message of the new survey was the need to press on with implementing the package (Rühl, 2003).

Looking further ahead at the prospects for growth in demand, there are also worries connected with the virtual collapse of educational systems in many transition countries in the second group, where real public education expenditure per school-age child and teachers' salaries are a fraction of their pre-transition levels (UNICEF, 2002a). This is beginning to be reflected in performance in the international tests, already discussed, which measure the ability to use academic knowledge and skills (OECD, 2001) and to raise doubts about the prospects of shifting the comparative advantage of such economies from cheap labour + natural resources to high-technology skills. These prospects are also threatened in natural-resource-rich countries by 'Dutch disease' – the name given since the 1970s to the negative impact of a windfall increase in foreign exchange earnings on the rest of an economy. In an economy with Dutch disease, a booming sector (in Russia's case oil and other mineral exports) attracts resources to itself and bids up their prices, pushing up the value of the national currency to the detriment of other tradable sectors. New ICT-based sectors in the region can only become and remain competitive if their unit labour costs in dollars undercut those of India and others in international markets, which implies a need for realistic exchange rates as well as favourable trends in productivity relative to wages.

Box II: The challenge of the shadow economy in transition countries

What a visitor sees on the streets of many towns in transition countries looks inconsistent with official figures on GDP decline and job losses. This is because a large proportion of workers (including many public sector-wage earners and many officially counted as unemployed) are working in a sector which generates a large proportion of income but which is unrecorded by official statistics – the 'shadow economy'. Its other characteristics are that it evades taxes, avoids regulatory requirements and may be engaged in illegal activities. Using an ingenious method based on electricity consumption, economists have estimated the size of the shadow economy in 24 countries in Central and Eastern Europe and Central Asia in 1996-97, and find that it ranges from 11 per cent of official GDP in Lithuania to 180 per cent in Kyrgyzstan: other countries in which it exceeds official GDP are Macedonia, Moldova and Ukraine, while in Armenia, Azerbaijan, Bulgaria, Estonia, Georgia, Russia and Tajikistan it accounts for more than half.

Shadow economies on this scale have an obvious negative impact on tax revenue and hence on the quality of public goods and services. They also make it more difficult for governments to achieve macroeconomic stability, and create many distortions in resource allocation. The existence of a large shadow economy also reflects and reinforces distrust in the ability of the political system to govern and engenders respect for those who get away with evading taxes and laws. As far as decent work is concerned, workers in shadow firms are not protected by labour regulations and may not be eligible for social safety net services. On the other hand, the shadow economy helps maintain activity and employment, which otherwise might be suppressed by rent-seeking and corruption, and may be of particular benefit to less qualified workers who would otherwise be unemployed or near

destitute. Through the multiplier, it may have a positive effect on growth in formal sectors and tax receipts, and it provides entrepreneurial experience for some who may later set up respectable small enterprises.

Nevertheless, the consensus is that a full transition of these economies and labour markets must involve shrinking the size of their shadow economies, which regression analysis shows to hinder long-term growth and international competitiveness. Eilat and Zinnes make the following policy recommendations for this purpose:

- exchange rate unification, rather than dual exchange rates or foreign exchange rationing;
- improvement in regulations, to make them less predatory and obstructive;
- civil service reform including salary increases, and adequate funding for regulatory bodies;
- transparency and public participation in regulatory processes;
- bank privatization and capital market development;
- decentralization of public administration and better local public finance;
- rule of law, particularly protection of property rights;
- further liberalization and deregulation of markets;
- tighter budgetary and monetary policies to reduce the rate of inflation;
- government payment for goods and services in cash rather than barter;
- tax reform (based on an accurate judgement as to whether an increase or reduction in rates will increase revenue);
- stricter and more strategic enforcement of penalties for illegal activities.

Source: Eilat and Zinnes, 2002.

In order to increase the integrability of outsiders, labour market reforms are still needed. For instance, in Russia, which has recently made more progress in overall economic reform than other CIS countries, the following labour market policy options are under consideration (World Bank, 2002a, p. 91):

- reducing the excessive rigidity of the labour code in relation to hiring and dismissing workers (coupled with improvements in social protection);
- continuing to increase minimum wages, to a level which would reduce poverty among low-wage workers without affecting the incentive to hire;
- developing institutions to allow worker voice, improve work conditions, enforce contracts and resolve disputes, including true worker and employer representation in their respective organizations, increased resources and capacity for the federal labour inspectorate, and alternative dispute-resolution mechanisms;
- improving the design of unemployment-benefit and active labour market programmes, to protect workers against poverty, help facilitate restructuring, and move protection out of firms and into the public domain.

In many transition countries, also, a huge gap has opened up between places where declining industries are concentrated and places where new employment is being generated. In Russia, for instance, the share in total income of the top quintile of regions in terms of income per head increased from 38 to 53 per cent between 1994 and 2000, while that of the poorest 40 per cent fell from 18 to 13 per cent. In the first half of 2002, top-quintile regions absorbed 56 per cent of total and 66 per cent of foreign investment, while the poorest 40 per cent received 10 and 2 per cent respectively. Shares of population have not changed much in response to these developments (World Bank 2002b, p. 11), and regional differences in unemployment rates remain striking (World Bank, 2002a, table I.2). Low geographic mobility in Russia and other transition countries reflects significant barriers to labour mobility. Such barriers include: continued use of the *propiska*/ residence permit system in some cities, where large bribes have

to be paid for such permits, which are needed not only to get a job, but also to send children to school, receive medical treatment, and vote (Karush, 2002); poor functioning of the housing market (affecting front-runners like Hungary as well as CIS countries); and poor communication and transport links (World Bank, 2002a, p. 23).

The integrability of labour-market outsiders is also threatened in the longer run by the problems in the educational system already mentioned. Attention must be paid to reducing drop-out from school, particularly among children from low-income families, in rural areas, and from ethnic minorities. Improving the quality of schooling, especially in the less advantaged schools, is also a priority – in the OECD PISA international tests, already mentioned, children from more privileged socio-economic backgrounds in the four transition countries for which data are available,¹³ and children attending more advantaged schools (in terms of average socio-economic background) performed better than others. Performance was more closely related to the quality of schooling than to the socio-economic background of the pupils.

2.2.3 *Developing countries*

The allocation of developing countries to the more and less flexible categories of the table is fairly easy. **East and South-East Asia** definitely belong to the first group. Labour markets in this region have been relatively free of the kind of regulations and interventions that raise labour costs above their market level, create dualism in the labour market between formal and informal sectors and reduce the mobility of labour. The public sector has accounted for a relatively small share of employment and has not been a wage leader. Minimum wage regulations, where they exist, have not been such as to affect the level and structure of wages. Employment security regulations have not been strict enough in their implementation to prevent restructuring, social security provisions have been minimal, and trade unions are government-dependent or weak. The fast expansion in demand for labour in these countries has been associated with a relatively equal distribution of its benefits and a high level of investment in education and training.

The countries of **South Asia** have traditionally been in the second group and, although they are changing, the process is slow. The large public enterprise sector has been a drain on the government budget and a negative influence on the efficiency of the private sector. Minimum wages are widespread and high enough to influence the average wage and wage structure in the formal sector. These countries have the most stringent and complex employment protection legislation, but it covers no more than 10 per cent of the workforce. Anant et al. (1999, p. 73) report that employers have responded to it by increasing their reliance on contract labour, subcontracting production to the unorganized sector, and introducing non-wage incentive payments: this legislation is judged to have increased the cost of formal-sector employment, to the detriment of its demand for labour.

Latin America, also, in spite of its 'new economic model' (Reinhardt and Peres 2000, box 3), is still a candidate for membership of the second group. Traditionally, oligopolistic firms in the modern sector have been faced by strong trade unions and minimum wage and employment protection regulations, with the result that growth in employment has been concentrated in the informal sector. And many countries in **North Africa and the Middle East** have huge public sectors (often effectively the employers of last resort) and regulate their labour markets quite extensively.

¹³ The Czech Republic, Hungary, Poland and Russia.

Box III: Wages, employment and workers' rights in Latin America

The governments of virtually all Latin American countries during the 1990s reduced trade regulations and capital controls and made some attempt to increase labour market flexibility. According to neoclassical economic theory, workers should have gained from these policy changes, through a reduction in unemployment and increases in employment and wages. In fact, Weeks estimates that labour's gains in the 1990s, when economic growth accelerated, were meagre, and even negative in some countries. Weeks argues that this is due to a decline in the strength of trade unions throughout Latin America, and that workers' rights and the exercise of those rights are central to a more equitable distribution of the gains from growth. In the interests of symmetry between capital and labour, the rights provided for in ILO Conventions (to establish trade unions, not to be subjected to intimidation for joining a trade union, to select representatives by democratic process, and for those representatives to bargain with employers in both private and public sectors) need to be reasserted and their effectiveness needs to be strengthened. In addition to core rights, he argues, measures are required to establish minimum standards in the workplace – both to discourage a competitive process by which standards are reduced to the level of the least regulated country and, through a decrease in accidents and illness, to contribute to an increase in productivity and a reduction in health-care costs.

Source: Weeks, 1999.

What kind of strategy should be followed by developing countries in each of the groups, in order to promote decent work by (i) expanding the demand for labour and (ii) increasing the integrability of disadvantaged workers? Rather than attempting to generalize about such strategy, it may be more useful to discuss two cases – one from each category – in which ILO has recently made a policy-formation input. These are Pakistan, a member of the first, less flexible group (ILO, 2001a), and Cambodia, one of the world's poorest countries, where flexibility verges on anarchy (ILO, 2002).

(a) *Expanding the demand for labour in Pakistan and Cambodia*

Pakistan's economy is not only relatively inflexible – it is also cash-strapped. The government has been under IMF pressure for several years to reduce its budget deficit. Thus it is necessary to find a way of increasing demand for labour that does not involve subsidies or additional government expenditure. One way of doing this is to get rid of unnecessary regulations. Labour levies and protection laws, though not regarded as major worries by enterprises, raise the costs of entering the formal sector, leading to fragmentation of production and sub-optimal plant sizes (World Bank, 1996). The external trade regime has been liberalized since the 1980s, but import tariffs remain higher than in most countries in the region and restrictions are still in place on the import and export of a number of items (IMF, 2001, table III-2). Small and medium enterprises are held back by 'export' and 'import' taxes imposed by local jurisdictions through which goods pass and by a wide range of zoning and other regulations. Relaxation of restrictions on (and taxation and harassment of) the urban self-employed, particularly in the trade, transport and services sectors would also improve their income opportunities (ILO, 2001b).

As for factor price distortions, another aspect of inflexibility, there has been some improvement since the 1980s. Wage differentials between the formal and informal sectors and between large and small firms remain significant, but productivity has begun to rise faster than wages in large scale manufacturing (ILO, 2001a, figure 10). Nominal and real effective devaluation of the rupee has continued, and the days of negative real interest rates are long over. However, loans have been provided at lower than market rates by state institutions: particularly

damaging to the demand for labour have been the loans at low interest rates for tractors and mechanization. In general, trends are in the right direction, but labour demand would be boosted by eliminating the remaining subsidies to capital.

Typical of the South Asian model is the heavy weight of the public sector in Pakistan. In 1996/97 public sector workers represented over 8 per cent of all workers and about 23 per cent of wage employees; and 31 per cent of public-sector employees had degree qualifications compared with 22 per cent of formal private-sector employees. Comparison of public and private sector remuneration is made more difficult by the large range of non-monetary benefits enjoyed by civil servants. However, it is clear that the total remuneration package and other perceived advantages of public service are sufficient to attract a disproportionate number of educated Pakistanis to such employment. This has a debilitating effect on the economy and the labour market, weakening the private sector and making it more difficult to increase the overall demand for labour.

Reforms in these areas, together with a continued drive against corruption, would improve incentives for the expansion of external leading sectors – a leading sector being defined as one which has an ‘unexploited or *latent* demand that can be actualized and a sufficiently *large* demand as to cause its satisfaction to have a significant impact on the whole economy’ (Currie, 1974, p. 6). A leading sector must also (unlike a ‘following’ sector) be capable of an *exogenous* increase in growth rate, independent of the current overall rate of growth of the economy. In Pakistan's case the obvious candidates for external leading sectors are exports from such (transformed) industries as textiles and garments, agriculture and food processing, and medical equipment and supplies.

Expansion of these external leading sectors (by definition those where latent demand is most easily found) could be accompanied by the growth of a complementary internal leading sector – house-building, which has a low import component, a high unskilled labour component and strong linkages to other sectors. Huge latent private demand for housing already exists in Pakistan, held back by lack of finance, administrative procedures, insecurity of property rights and excessive construction codes, and demand would be further increased by expanding the external leading sector. Latent private demand for housing (among low- as well as middle- and high-income groups) could be fully actualized, to the benefit of the demand for labour, without subsidies, if these institutional obstacles to the development of a substantial commercial system providing long-term mortgages to people who already have adequate income to repay them, could be removed.

The leading sector strategy could be usefully complemented by changes in the composition of government expenditure. To some extent, this would be a matter of changing the balance between categories – from running enterprises to managing the economy, and from current to development, from defence to non-defence, from salary to non-salary, from non-social to social current expenditure, etc. It would also be useful to increase the labour-demand impact of a given amount of public development expenditure. Choice of techniques in the public investment programme, particularly construction of infrastructure, could be handed over to economists rather than engineers, to the benefit of their labour intensity and the demand for labour.

In overwhelmingly agricultural **Cambodia** only 15 per cent of workers are wage-earners (compared with 38 per cent in Pakistan), and the public sector is relatively small (less than 3 per cent of the country's workforce) and desperately underpaid (Godfrey et al. 2001). Labour-market institutions and regulations are at a very early stage of development. Formally the employees of the few enterprises with more than 20 workers are entitled to injury, sickness and maternity benefits (but not all such enterprises comply) and civil servants are entitled to old-age, invalidity and survivors' benefits (but the levels are miniscule). Minimum wages are set only for the garment industry. Numerous trade unions have been established at national and enterprise level but they are weak, inexperienced and in some cases politicized. In the absence of transparent, fair and expeditious dispute-resolution machinery, the many disputes, over wages,

forced overtime, safety and health at the workplace, unjust dismissals, etc., often end unnecessarily in strikes, lockouts and threats by factories to leave the country.

**Box IV: Decent or indecent work in *maquiladoras*?
Compared with whom? New evidence from Honduras**

Are offshore assembly workers being exploited or emancipated? The answer depends on the nature of the comparison that is made. Some analysts apply absolute standards related to basic needs and human rights, but most are 'relativists', comparing the situation of such workers with workers in industrialized countries (inevitably adversely), with workers in the same country in sectors oriented towards the home market (which raises methodological problems), or with unemployed or destitute workers (in Krugman's¹⁴ often quoted phrase, 'bad jobs at bad wages are better than no jobs at all'). A new study¹⁵ by Ver Beek of *maquiladora* workers in the garment industry in Honduras uses an alternative control group – individuals who are applying for employment in the *maquiladora* for the first time, and who are similar in background (age, education, marital status, etc.) and experience to those who are already working there.

In several respects, and in contrast to some earlier research and conventional wisdom, *maquiladora* workers were found to be better off than the control group. They were earning on average two-thirds more than the minimum wage and 55 per cent more than applicants did in their previous jobs – with the improvement in both cases being rather greater for men than for women. Employees were found to provide more financial support to their families, and to be more likely to feel that their household relationships had improved and that they were heads of their household. They were significantly more likely than the control group to have voted in the last election.

On the other hand, *maquiladora* salaries are not high enough to move a Honduran family out of poverty, based on national benchmarks. The proportion of employees reporting health problems affecting their ability to work was significantly higher than for applicants, and most of them thought their problems were work-related. A slightly lower percentage of employees than applicants were or had been working in unionized establishments. And free time among workers was significantly lower than among workers.

There was not much difference between the two groups in the extent of overtime worked (on more occasions by employees but for fewer hours), experience of stress (affecting about half), mistreatment by supervisors (relatively infrequent), and ability to arrange child care and continue their education.

In general, *maquiladora* workers were satisfied with their jobs – 50 per cent very much so, 46 per cent 'somewhat', and only 4 per cent 'not at all'. As the author comments, 'it seems that the principal attraction of *maquiladora* employment is economic, which would explain why hundreds of applicants wait in line each week hoping to get a job in one of the *maquiladoras*'.

Source: Ver Beek, 2001.

Although these disputes reflect worker dissatisfaction, judgement about the adequacy of wages in the garment industry depends, as always, on the point of comparison (see box IV above): at around \$60 per month on average, they compare favourably with the alternatives available in Cambodia. A question inserted in October 2000 into a regular survey of garment workers found that 43 per cent of them had been unpaid family workers immediately prior to joining the industry, 16 per cent had been housekeeping or caring for children and 3 per cent had

¹⁴ Krugman, 1997.

¹⁵ The interview survey, in the Department of Cortés covered 270 *maquiladora* workers and 149 first-time applicants in July and August 1998.

been unemployed – only 13 per cent had been wage-earners, paid family workers or working in their own business. It is not surprising in these circumstances that 50 per cent of those interviewed had paid a 'fee', on average \$38, to get their job in a garment factory (Sok et al., 2001, pp. 46-61).

In these circumstances, the main priority for labour relations in the garment industry and the rest of the small private formal sector is to build the capacity of workers' and employers' organizations and to develop machinery for dispute prevention, conciliation, arbitration and adjudication. Through the development of democratic and independent trade unions, Cambodian workers can judge and protect their own interests: this is preferable to relying on pressure on labour standards from foreign governments, trade unions, consumer groups and non-government organizations. This kind of pressure sometimes takes the form of closing markets to Cambodian products (see box V).

**Box V: Decent or indecent work in globalized production facilities?
Who should set and enforce standards?**

As an alternative to top-down regulation based on uniform labour standards and to reliance on voluntary initiatives by corporations, Fung, O'Rourke and Sabel have recently proposed a new approach, which they call Ratcheting Labour Standards (RLS). RLS would use monitoring and public disclosure to create incentives for firms to improve their own and their suppliers' factories, and would create a pool of information about best practices for comparison and diffusion. It would be based on four principles – transparency, competition, continuous improvement, and sanctions.

In practice, it would work as follows. At the top, an RLS council (non-governmental or inter-governmental) would regulate two kinds of entity: firms and monitors. Monitors would be organizations that collect and verify social-performance information and help firms comply with their labour standards. Each firm in an RLS-regulated sector would select a monitor and abide by its protocols. Based on reports from the firms, inspections and occasional independent audits, monitors would rank the social performance of firms under their purview. The RLS council would act as an 'umpire', assuring the accuracy and comparability of information from different monitors and disseminating it. These arrangements, it is hoped, would encourage firms to vie with each other to show that they are better than their competitors. The information generated by this process would be available to consumers, journalists, activists, investors, officials at local, national and international levels, and the firms themselves, and would feed into a wide-ranging debate on global labour standards. Workers in developing countries would make an input into the discussion of appropriate standards, which would be periodically ratcheted up as conditions changed.

Two possible roads to building RLS are envisaged. The first is for one of the non-governmental, multi-stakeholder workplace monitoring programmes to embrace it as an expansion strategy. Alternatively, international organizations (the ILO, the UN, the World Bank) could begin to build RLS: the authors argue that the Bank, in particular, is being transformed in ways that might make it interested in this task. Officials in regulatory agencies and trade unions could use the information generated by RLS or could even join in as certified monitors.

In response, Standing, while supporting the objectives of RLS, has some worries about its design.

- It could make matters worse, by driving bad practices underground.
- The cost could be excessive in relation to its effect: the same amount of money might be better used to help vulnerable workers to bargain better.
- The principles on which standards are to be based are vague, and need to be spelled out.
- RLS puts excessive emphasis on regulations, monitoring and sanctions ('the smell of the big stick'): incentives to good practice, such as an award scheme, are likely to work better.

- Workers' voices should be at the forefront in selecting monitors, otherwise there is moral hazard in the proposals.
 - More attention should be paid to the danger of a ratcheting down of standards in industrialized countries.
 - The World Bank should remain a bank, and should not be a standards setter or monitor.
- In short, Standing concludes that “incentives to improved practices, combined with public advocacy, have more prospect of success than complex monitoring and sanctions. Above all, though, strengthening the voice of working communities – not putting faith in social auditors – is the most effective way to make substantial progress.”

Sources: Fung, O'Rourke and Sabel, 2003; Standing, 2003.

There is a need, also, to identify and encourage sources of dynamism in the labour market, in the interests of continued or accelerated generation of demand for labour. Unfortunately, there is a question mark over the prospects of two important sources of dynamism – the garment and tourism industries. In the case of the garment industry the problem is that Cambodia does not have an underlying comparative advantage in a cheap-labour industry of this kind. As the special concessions in world markets which have brought garment factories to Cambodia begin to be eroded, the number of such factories and employees is likely to fall. In the case of tourism, the problem relates not to comparative advantage and competitiveness (which are not a big worry for Cambodia, given its unique assets) but to global tensions. Whether or not it continues, a downturn in arrivals by air since September 2001 is a reminder of this sector's vulnerability to events outside its control.

The starting point in a search for alternative sources of dynamism is recognition of Cambodia's underlying comparative advantage – in natural-resource-based production, initially involving relatively unskilled labour, rather than in the non-agricultural labour-intensive activities for which countries like the Philippines and Vietnam, with high skill levels and labour/land ratios, are suited. The search also needs to start with the question – how does Cambodia's economy differ from others in the region? In what main ways is it an outlier, in particularly difficult circumstances compared with the others? In this respect, two anomalies are particularly striking for the observer of the Cambodian economy in an Asian context: 24 years after the end of the Khmer Rouge regime and ten years after UNTAC, its road system has not been repaired and its economy is consequently fragmented; the proportion of arable land under irrigation is still tiny, both in comparison with other ASEAN countries and in relation to its potential. Emergency programmes in each of these areas would have a greater and quicker impact on demand for labour than any other set of measures.

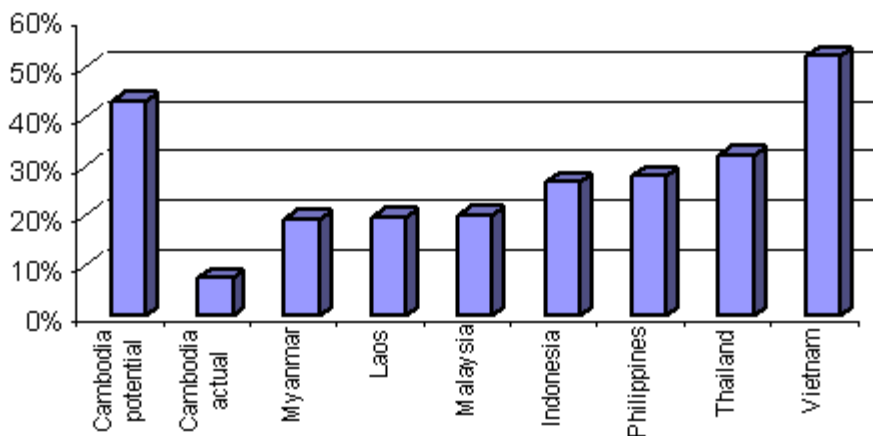
Between 1992 and 2000 less than 12 per cent of total external assistance went to transport and infrastructure, and only 350 km of primary roads were reconstructed to international standards. As a result, only about a third of the total length of primary roads is passable all the year round, and secondary and tertiary roads are in an even worse state. Cambodia does not have an integrated national economy – many of its inhabitants belong more to the Thai or Vietnamese economies than they do to the Cambodian – and farmers have no incentive to move out of low-productivity subsistence farming into cash crops: poor roads mean that their input prices are high, the prices they get for their crops are low, and commodities take so long to get to market that they are spoiled on the way.

The current shift in emphasis in external aid towards the transport sector should continue. But, at the same time, a comprehensive and prioritized national transport strategy, oriented towards increasing demand for labour, is needed. Wherever possible, labour-based appropriate technology should be used for road-building, repair and maintenance. A new system for routine financing of road maintenance – the most neglected aspect of road programmes in Cambodia –

urgently needs to be worked out: and meanwhile an interim, emergency, arrangement for allocating government funds to maintenance needs to be implemented. Progress in reforming public-sector salaries, also, is a necessary condition for success in this and any other approach towards the promotion of decent work in which government is involved.

No large-scale irrigation projects have been implemented in Cambodia in the past 30 years, and most of the medium-scale projects since 1979 have been unsuccessful. Cambodia has the least irrigated economy in the region and its irrigated area could potentially be more than six times larger than it is (figure III). Lack of good water management and control is at the heart of food insecurity for many of the rural poor and discourages subsistence farmers from borrowing to invest in higher-yield activities.

Figure III: Irrigated agricultural area as per cent of total arable land, Cambodia (potential & actual) & other ASEAN countries, 1999



Source: ILO, 2002, figure 24.

Investment in roads and irrigation go together. If roads are bad, investment in rehabilitating irrigation systems does not make much sense. But if roads are improved, the social and private profitability of irrigation rehabilitation and development is transformed. Minor repair of existing facilities could, in these circumstances, give an immediate boost to agricultural growth. The planners' emphasis on investment in small-scale, private-sector-led irrigation systems, also, makes it even more necessary for road and irrigation planners to work together: the incentive for farmers to buy and to maintain these small-scale irrigation systems will depend crucially on ease of access to inputs and markets.

(b) Increasing the integrability of labour-market outsiders in Pakistan and Cambodia

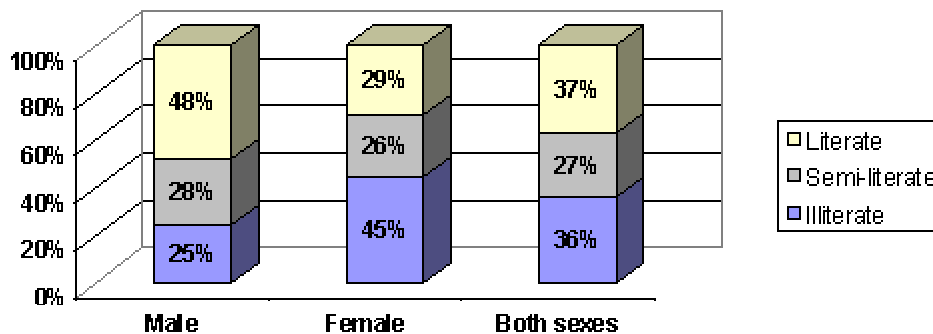
In both countries the major obstacle to the integration of outsiders into expanding sectors of the economy is illiteracy. The contrast in adult illiteracy rates, particularly for females, between Pakistan and neighbouring countries otherwise around the same level of development is striking, as table VI shows.

Table VI: Comparison of GNP per head and adult illiteracy rates, South Asia and China

	Pakistan	Sri Lanka	China	India	Bangladesh	Nepal
GNP per head (US\$) 1998	470	820	780	450	370	220
Adult illiteracy rate (% of 15+ population)						
Both sexes	56.0	8.9	17.2	44.3	59.9	60.8
Female	71.1	11.7	25.4	56.5	71.4	78.3
Male	42.0	5.9	9.3	32.9	48.9	43.1

Source: Government of Pakistan, 2001, table 2.

Moreover, functional illiteracy rates in Pakistan and all the countries in table VI are likely to be much higher than those shown (based merely on respondents' answers' to the question whether they could read or write). For example, Cambodia's illiteracy rate in 1999, based on a similar self-assessment survey, was 36 per cent – higher than in any other South-East Asian country except Laos. But, as figure IV shows, a survey carried out with UNESCO assistance in the same year, in which specially designed tests were administered, found that as many as 63 per cent of Cambodians were functionally illiterate – i.e. either completely illiterate or semi-literate (able to read and write only a few words and numbers, not enough to be of use to them for their everyday life and income generation). As in Pakistan, the situation for women is much worse than for men. Functional illiteracy poses huge problems for a programme of decent work promotion. There is a strong connection between the acquisition of literacy/numeracy and productivity gains in agriculture, and a literate, numerate and trainable workforce is needed for international competitiveness based on productive rather than merely cheap labour.

Figure IV: Literacy and illiteracy rates, 15+ age group, by sex, Cambodia, 1999

Source: Godfrey et al. 2001, table 2.5.

Improvements in access to and reduction in drop-out from basic education are the most cost-effective way to reduce illiteracy rates over time but, in both countries and the many other developing countries in a similar situation, this is an emergency. A mass campaign aimed at adults is needed, and planners in both countries seem to be thinking along these lines. The key to a successful campaign will be to make it worthwhile to enrol – by reducing the costs of attendance, and by linking it to income generation activities.

In both economies, also, a safety net is needed which will reach labour-market outsiders. In countries such as these a formal-sector-based scheme is of little use for this purpose. Much more relevant is a national guaranteed employment scheme, offering work (building, repairing and maintaining roads, schools, health centres, irrigation infrastructure, etc.) to all who want it – for wages rather than food. If wage rates are set low enough in relation to local market rates, such a scheme is counter-cyclical, self-liquidating and (like a literacy campaign) self-targeting. Appropriately enough for two of the world's poorest economies, this is a safety net that creates and sustains assets: it employs the poor to help the poor.

3.1 Conclusions

The starting point of this paper has been that any discussion about the practicalities of decent work policy essentially comes down to possible trade-offs and complementarities between its dimensions. This question is too often approached in a dogmatic spirit – with 'distortionists' maintaining that assuring high wages and labour standards for some will always harm others, and 'institutionalists' insisting that there is never a conflict between the quality and quantity of employment. In practice, as has been seen, there are potential trade-offs, but they can be offset or postponed by increases in productivity.

The context within which the decent work objective is being approached will differ from country to country. What is possible will depend in part on the category of economy in question, as far as income per head, importance of wage employment and government role is concerned – whether industrialized, transition or developing. It will also depend on the nature of the labour market within each category – whether it is more or less flexible. Thus we have suggested a six-category typology for discussion of policy.

How progress can be measured will also depend on the context. The traditional labour market indicators (unemployment and labour force participation rate and employment-to-population ratio) are particularly unhelpful for this purpose in countries which do not have effective unemployment benefit systems. Wage employment is a more useful proxy for the demand for labour, even in countries where it represents a relatively small proportion of total employment. It would be nice to be able to distinguish between primary and secondary forms of employment, but in practice even in industrialized countries the available statistics are insufficiently subtle for this purpose. Statistics on non-wage aspects of the quality of employment are also problematic, and not comparable between countries. In general, the most urgent and promising direction for developing decent work indicators is to improve statistics on earnings and particularly wages. Disaggregation of all indicators by gender, age group and education level is also important. Our exploration of the possibility of a single national index of at least the employment dimensions of decent work is, it must be admitted, still at the prototype stage: our 'index of labour morale' (see tables IV and V, and figure I) has the virtue of simplicity, but it needs further work.

The focus of the paper's policy discussion has been on the demand for labour. In contrast to the earlier (elasticity-based) fear among employment planners that productivity growth can pose a threat to jobs, this approach puts increasing productivity at the centre of a decent work strategy. At the same time, it is necessary to increase the integrability of labour-market outsiders to enable them to take advantage of any increase in labour demand. How this may work differs between the six categories of country in our typology.

In **industrialized countries**, while the struggle between the more flexible Live-to-Work US model and the less flexible Work-to-Live European model continues (with some signs of convergence between the two models), the prospects for growth in demand for labour are extremely uncertain and macroeconomic policies that are 'supportive of activity' are needed. Unfinished business in the area of increasing the integrability of labour-market outsiders

includes: wider implementation of (improved) schemes to 'make work pay'; adjustment of hiring, firing and training practices to the phenomenon of an ageing workforce; renewed emphasis on comprehensive lifelong learning strategies; and greater attention to inequities within education systems.

In **transition countries**, whether flexible or inflexible, the prime means of increasing the demand for labour is further overall economic reform. As well as the establishment of basic market institutions, liberalization of markets, enterprise restructuring, and strengthening of the financial sector, deregulation of the small enterprise sector is an urgent priority for this purpose. Looking further ahead, also, educational systems in many such countries need to be rebuilt after their virtual collapse, if their economies are not to get stuck in low-skill equilibrium. To increase the integrability of outsiders, labour market reforms and reduction in barriers to geographic mobility are still needed, as well as improvements in the quality of education available and in access to it.

Between **developing countries**, as the examples of inflexible Pakistan and flexible Cambodia have shown, ways of increasing demand for labour are likely to vary widely. In Pakistan there is still some way to go with deregulation, eliminating subsidies to capital, reducing the weight of the public sector, and the drive against corruption – all of which would improve incentives for the expansion of external leading sectors. Growth of the complementary internal leading sector of house-building could be encouraged by removing institutional obstacles to the development of a commercial, long-term mortgage system; changes in the composition of government expenditure would also help. In Cambodia, the search for alternative sources of dynamism to revitalize the garment industry (out of line with underlying comparative advantage) and the vulnerability of the tourism industry draws attention to the need for emergency programmes of road building/ repair and rehabilitation of irrigation systems, both of which would give a big boost to labour demand.

Programmes needed to increase the integrability of outsiders take a similar form in both types of developing country. Abolition of functional illiteracy, particularly among women, is the priority – through improving access to basic education and reducing drop-outs, but also through emergency adult literacy campaigns. In both cases, also, a national guaranteed employment scheme could provide an appropriate safety net for labour-market outsiders that creates and sustains assets.

Throughout the paper, in the boxes as well as the text, a message that has repeatedly emerged is the importance to a decent work strategy of workers gaining (or in some countries regaining) control of their own destiny. Thus Applebaum (2002) (in box I) looks to a resurgence of trade union movements in industrialized countries as a way of rolling back the new insecurities associated with the transformation of work and employment over the past few decades. In the 1990s the success of the unfashionable democratic corporatism model in improving the employment situation in four of Europe's smaller economies (Auer, 2000) points in a similar direction. In the same spirit, the World Bank (2002) emphasizes the need to develop institutions in Russia to allow worker voice, improve work conditions, enforce contracts and resolve disputes, including true worker and employer representation in their respective organizations – a recommendation that would be appropriate in many other transition countries.

In developing countries, the lack of much gain for labour from the 'new economic model' in Latin America is attributed by Weeks (1999) (in box III) to the decline in the strength of trade unions throughout the sub-continent: he calls for a reassertion of the rights provided for in ILO Conventions and of a role for unions in establishing minimum standards in the workplace. In countries like Cambodia, where trade unions are weak, inexperienced and often politicized, the development of democratic and independent workers' organizations is an urgent priority. Such organizations, as Standing (2003) argues more generally (in box V), provide the most effective route to progress in improving labour standards. Rather than relying on externally imposed

monitoring and sanctions systems (such as Ratcheting Labour Standards) or pressure from foreign governments, trade unions, consumer groups and non-government organizations, the workers themselves should be able to make a judgement about their own interests, and should be in a position to protect them.

However, new types of trade union¹⁶ are needed for this purpose – 'swords of justice' rather than merely protectors of vested interest (Hyman, 1999). In order to reverse the decline in their membership, unions need, of course, to pay attention to the special requirements of their traditional constituents, particularly in the protection of their pay and working conditions (while taking care to retain public support for any industrial action). But if they are to advance the wider decent-work objective, they also need to build a new constituency among labour market outsiders. Jose (1999, p. 10) describes some innovative approaches to organizing less skilled workers, women and minority groups in the service industries at a national level, and less skilled workers in small enterprises under the aegis of area-specific organizations in the United States, and suggests that they might provide useful lessons for similar efforts in developing countries. In any case, building a new constituency must be high on the agenda of trade unions in all types of country and certainly a task which the ILO is well placed to assist.

The proper framework for reasserting workers' control over their own destiny and building a new constituency is the ILO Declaration of 1998. Its four core principles are:

- (a) freedom of association and the effective recognition of the right to collective bargaining;
- (b) the elimination of all forms of forced or compulsory labour;
- (c) the effective abolition of child labour; and
- (d) the elimination of discrimination in respect of employment and occupation.

As the Declaration points out, merely by joining the ILO, all members have effectively signed up to these four principles.

¹⁶ Another paper in this series (Kuruville, 2003, forthcoming), on the social dialogue dimensions of decent work, addresses these issues in detail.

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Exercises

The data for the following exercises are retrieved from the ILO CD-ROM, *Key Indicators of the Labour Market 2001-2002*. Repeat these exercises with a different selection of countries, or carry out your own exercises, using the KILM data to explore other aspects of decent work.

1. Employment status

(a) The following tables show trends in wage employment and labour force in six countries (one from each category in our typology). Construct a table and a chart showing trends in wage employment as a percentage of the labour force in these six countries. What are the implications for decent work of the differences between countries in levels and trends in this percentage?

Table 1.1: Wage employment ('000), selected countries, 1990-1999

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
France	19154	19260	19252	19070.3	19121	19352.7	19450	19611	20058	20509
Hungary	3846	3694	3461	3284	3219	3146	3113	3127	3221	3201
Mexico	15936	16877	17489	18102	18749	19397	20760	21730	23251	23763
Korea, R.	10950	11405	11618	11794	12325	12784	13065	13226	12191	12522
Russia			65386	64190	60404	59786	58976	57194	55192	55966
US	108338	107101	108187	109656	112232	114262	116040	118873	121019	123267

Table 1.2: Labour force ('000), selected countries, 1990-1999

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
France	24576	24604.	24825	24978	25136	25278	25589	25581	25755	25982
Hungary	4731	4628	4526	4346	4202	4095	4048	3995	4010	4096
Mexico	23603	30143	31219	32381	33237	34309	35437	37193	38242	38470
Korea, R.	18540	19115	19498	19879	20395	20852	21242	21662	21455	21634
Russia	77185	75096	73007	71828	70640	69469	68264	67500	66736	69732
US	125840	126346	128105	129202	131057	132302	133946	136295	137674	139369

(b) The following table shows trends in the number of women in wage employment in the same six countries over the same period. Construct a table and a chart showing trends in women's share of wage employment in these six countries. What are the implications for decent work of the differences between countries in levels and trends in this percentage?

Table 1.3: Women in wage employment ('000), selected countries, 1991-1999

	1991	1992	1993	1994	1995	1996	1997	1998	1999
France	8578	8678	8708	8787	8900	8984	9097	9598	9543
Hungary	1719	1658	1580	1533	1468	1453	1447	1509	1519
Mexico	5705	5798	5892	6091	6291	6901	7279	7847	7973
Korea, R.	4344	4413	4459	4708	4879	5042	5196	4693	4952
Russia		32011	30871	28997	28722	28259	27368	26352	27103
US	49843	50604	51407	52601	53534	54489	55839	56863	58193

2. Real wages

The following tables show trends in nominal wages and consumer prices in five of the six countries. Construct a table and chart showing trends in indices of real wages in manufacturing in these countries (adding Mexico for which an index of real wages in manufacturing is also available).¹⁷ What are the implications for decent work of the differences between countries in levels and trends in this index? How do they modify the message of the results of exercise 1(a) above?

Table 2.1: Index of nominal wages in manufacturing, selected countries, 1991-1999 (1991=100)

	1991	1992	1993	1994	1995	1996	1997	1998	1999
France	100	104	107	109	111	114	117		
Hungary	100	123	153	189	230	281	343	401	445
Korea, R.	100	116	128	148	163	183	192	186	214
Russia	100	1107	9869	34006	79588	128115	157363	175685	
US	100	103	105	108	111	114	118	121	124

Table 2.2: Consumer price index, selected countries, 1991-1999 (1991=100)

	1991	1992	1993	1994	1995	1996	1997	1998	1999
France	100	102	105	106	108	110	112		
Hungary	100	118	145	172	221	273	323	369	406
Korea, R.	100	106	111	118	124	130	135	146	147
Russia	100	1629	15869	64688	192521	284429	326484	416814	
US	100	103	106	109	112	115	118	120	122

¹⁷ Data on nominal wages and consumer prices are not available for Mexico, but an index of real wages in manufacturing is available, as follows:

	1991	1992	1993	1994	1995	1996	1997	1998	1999
Mexico	100	109	112	116	100	89	88	91	91

3. Index of labour morale

Multiply the index of real manufacturing wages (constructed for exercise 2) by the series on percentage of the labour force in wage employment (constructed for exercise 3). Convert the resulting figures into an 'index of labour morale' (1991=100) and show your results in a table and chart.¹⁸ If trends in manufacturing wages are accepted as a rough guide to trends in average wages in each economy, what are the implications for decent work of the differences between countries in levels and trends in this index?

4. Part-time employment

(a) The following tables show trends in total and part-time employment in the six countries. Construct a table and chart showing trends in part-time as a percentage of total employment in these countries. What are the implications for decent work of the differences between countries in levels and trends in this percentage?

**Table 4.1: Total employment ('000),
selected countries, 1990-1997**

	1990	1991	1992	1993	1994	1995	1996	1997
France	18633	19145	19220	19350	19150	19321	19374	19225
Hungary			4028	3770	3519.5	3269	3220	3222
Mexico						32222	34116	35842
Korea, R.	18085	18611	18809	19119	19699	20237	20615	20867
US	104875	103722	104668	106104	101833	103360	104232	

**Table 4.2: Part-time employment ('000),
selected countries, 1990-1997**

	1990	1991	1992	1993	1994	1995	1996	1997
France	2264	2306	2405	2583	2669	2752	2772	2868
Hungary			108	109	106.5	104	100	106
Mexico						5336	5050	5657
Korea, R.	809	867	924	882	904	894	908	1074
US	14494	14891	15077	15280	13730	13760	13754	

(b) The following table shows trends in the number of women in part-time employment in the six countries. Construct a table and chart showing trends in the female share of part-time employment in these countries. What are the implications for decent work of the differences between countries in levels and trends in this percentage?

¹⁸ See tables IV and V and figure I in the paper for an attempt to construct such an index, with a different set of countries and a different source of data.

Table 4.3: Women in part-time employment ('000), selected countries, 1990-1997

	1990	1991	1992	1993	1994	1995	1996	1997
France	1806	1834	1908	2054	2122	2176	2181	2260
Hungary			71	71	71	71	70	76
Mexico						3246	3152	3603
Korea, R.	474	510	558	536	548	547	577	670
US	9886	10087	10126	10266	9469	9534	9597	

5. Trade-offs? Wages, employment and productivity compared

The following tables show trends in employment and productivity (value added per worker) in manufacturing in four of the six countries. As a result of exercise 2, you should already have a table showing trends in indices of real wages in manufacturing in the same countries. Combine the information from these three tables to construct a table and chart for each of the four countries, showing trends in employment, real wages and real productivity in each country. Compare the country charts with each other. What are the implications of this inter-country comparison for the debate about trade-offs and complementarities between dimensions of decent work?

Table 5.1: Index of employment in manufacturing, selected countries, 1991-1999 (1991=100)

	1991	1992	1993	1994	1995	1996	1997	1998	1999
France	100	97	92	90	90	89	88	88	88
Mexico	100	103	106	107	108	120	130	145	
Korea, R.	100	97	93	94	95	93	89	78	80
US	100	98	96	98	100	100	101	101	98

Table 5.2: Index of real value added per person in manufacturing, selected countries, 1991-1999 (1991=100)

	1991	1992	1993	1994	1995	1996	1997	1998	1999
France	100	104	104	113	118	119	127	129	132
Mexico	100	106	111	118	119	122	125	120	118
Korea, R.	100	109	119	131	143	156	175	186	220
US	100	104	107	114	120	123	128	133	141